November 1957

# THE CANADIAN CHARTERED ACCOUNTANT

## The Internal Auditor

## Registered Retirement Plans

## Accounting for the Newspaper Industry

## Training and Study - A New Approach

## Use of the Slide Rule

**ACCOUNTING RESEARCH:** Notes to Financial Statements
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# THE CANADIAN CHARTERED ACCOUNTANT

**VOL. 71, No. 5** **NOVEMBER 1957**

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# IN THIS ISSUE

**J. H. GOUGH, C.A. (page 427)**

In this age of the electronic computer it may seem unusual for an accounting journal to publish an article on "The Slide Rule", but John H. Gough is convinced that it is a most useful tool for accountants and he has gone a long way to satisfying the Editors on the merits of his case. "It is well worth the effort required to learn how to use it", he told the Editors, "particularly during a company budget period and in calculating interest in employees' credit union operations." He feels that mastery of the slide rule cannot be obtained through mere idle curiosity but, in the author's own words, requires "practice, patience and determination".

Mr. Gough is comptroller of Canadian Aviation Electronics Limited, Montreal. Formerly with Price Waterhouse & Company, he is a member of the Institute of Chartered Accountants of Quebec. A previous article on "Streamlining the Preparation of Expense Accounts" by the same author appeared in *The Canadian Chartered Accountant*, August 1956.

**GUY W. SMITH, F.C.A. (page 420)**

Today's high cost of newspaper operations, vulnerable with high volume and relatively fixed payroll and raw material costs, requires a particularly efficient system of internal control. The challenge to the newspaper accounting officer is to make sure that all revenues, derived primarily from advertising and circulation, are properly recorded and that management can effectively control its operations through sufficient detailed information on expenses which are analyzed by account classification. Thus "Accounting for the Newspaper Industry" emerges as a guide to those concerned with newspaper operations and who are forced to meet the complex problems with which the industry is continually faced.

The author, Guy W. Smith, has had over 35 years experience in newspaper accounting and auditing. He is a member of the Institute of Chartered Accountants of Ontario, the Society of Industrial and Cost Accountants and a member of the Public Accountants Council of Ontario. Since 1926 he has been a partner in the firm of Gunn, Roberts & Company, Toronto. He has served as a past president of the Institute of Chartered Accountants of Ontario and of the Public Accountants Council of Ontario. He joined his present firm 40 years ago.

**ALAN W. MORETON, C.A. (page 443)**

Doctors are the first group of self-employed professional men to register their own pension plan – a plan that takes advantage of this year's new tax exemption on retirement savings for the self-employed. It should, therefore, be of interest to readers, particularly members of the accounting and legal professions, who spearheaded the effort to obtain this type of legislation, to know something about the details of the plan. In his article "Registered Retirement Savings Plans", Alan W. Moreton highlights some of the more important aspects of the medical scheme which covers an annuity feature administered by a life insurance company and a common stock investment fund administered by a trust company. The author says that while this may turn out to be a typical group retirement savings plan, there is plenty of

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scope for designing distinctive plans for those facing individual circumstances.

Mr. Moreton is a partner in the Toronto office of George A. Touche & Co., with whom he has been associated for the past 20 years. He is a member of the Institutes of Chartered Accountants of Ontario and British Columbia.

**C. L. MITCHELL, C.A. (page 447)**

While the intermediate and final examinations for entering chartered accountancy in Canada are now uniform, education and training remain, for the most part, a provincial affair. Four years ago the Institute of Chartered Accountants of British Columbia, in cooperation with the University of the province, began an experiment in education and training whereby a student entering the profession might combine practical experience and university life in such a way as to appreciate the advantages and derive the greatest benefit from both. In "Technical Training and Study Combined – A New Approach", C. Lindsay Mitchell explains the reasons for introducing the plan, details the program itself and considers its favourable and unfavourable characteristics. He concludes with the progress made up to the present time.

Mr. Mitchell is assistant professor of accounting in the Faculty of Commerce and Business Administration at the University of British Columbia. He obtained his certificate in chartered accountancy in 1949 and is a member of the Institute of Chartered Accountants of Ontario and British Columbia. Keenly interested in educational matters, he has served on various education committees of the B.C. Institute, the Institute of Internal Auditors and the Society of Industrial and Cost Accountants.

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**L. G. MACPHERSON, F.C.A. (page 413)**

In "The Internal Auditor", Lawrence G. Macpherson deals effectively with the scope and status of the internal auditor and compares them with those of the external auditor. While the author recommends a well integrated control, he says that if a choice has to be made, the emphasis on the internal auditor's work should be placed on protective rather than on the constructive functions which he proceeds to define. This paper was presented at the recent International Congress of Accountants in Amsterdam which Mr. Macpherson attended.

Mr. Macpherson is director of research for the Canadian Institute of Chartered Accountants and editor of the Accounting Research Department of this journal. He is a partner in the firm of England, Leonard, Macpherson & Company, of Kingston and professor at the School of Commerce and Administration, Queen's University.

**EDITORIAL (page 411)**

Probably the best test of the validity of an accounting principle lies in its so-called "general acceptability". There are two main ways of attaining this: through pronouncements by the Canadian Institute of Chartered Accountants and other accounting bodies and as a result of day-to-day usage which, over a long period of time, reaches the status of general acceptability by accountants and the various bodies to which they belong. The editorial in this issue by John R. M. Wilson deals with the subject and the author describes the meaning and significance of accounting principles.

Mr. Wilson is past president of the Institute of Chartered Accountants of Ontario and a partner in the firm of Clarkson, Gordon & Company, Toronto. He is a member of the editorial sub-committee and is currently chairman of the Canadian Institute's 1957-58 annual meeting committee.

# NOTES AND COMMENTS

### New Publications

A brochure entitled "Integrated and Electronic Data Processing in Canada" has just been issued by the Canadian Institute of Chartered Accountants. Containing a series of eight articles published in the past year in *The Canadian Chartered Accountant,* this booklet is intended for all management personnel interested in the field of integrated and electronic data processing, including those who may be considering the installation of an electronic computer. It is priced at $1.75 for single copies, $1.50 a copy for quantities of 25 or more.

Expected early in November, as mentioned last month, is the release of "Financial Reporting in Canada, Second Edition, 1957", which will sell at $4.00 to members, $5.00 to others.

Special order forms for these two publications have been mailed to all the C.A. firms in Canada, as well as to 300 leading companies.

"Municipal Finance in Canada" is the title of another C.I.C.A. brochure now off the press. Likewise a series of articles reprinted from the magazine, it discusses the financial principles, practices and economics which broadly affect Canadian municipalities today and should be useful to both municipal auditors and administrative officers. Single copies may be obtained at $1.25 each; the price on orders of 25 or more is $1.00 a copy.

### C.I.C.A. Committees

The Taxation Committee, under the chairmanship of H. E. Crate, will meet in Montreal on December 5 and 6. Members of the committee are Rosaire Courtois, Montreal; P. S. Leggat, Montreal; J. P. Kinghorn, Montreal; L. J. Smith, Toronto; R. W. E. Dilworth, Toronto; H. L. McMackin, Saint John; J. W. Abbott, Winnipeg.

C. K. MacGillivray, chairman of the Magazine and Publications Committee, announces the following appointments to the committee: R. M. Parkinson, Toronto; J. C. Taylor, London; Marius Laliberte, Quebec City; L. J. Smith, Toronto; G. H. Peck, Montreal; R. E. Saunders, Toronto; H. E. Moffet, Montreal.

Appointments to the Committee on Accounting and Auditing Research are: T. A. M. Hutchison, Toronto, chairman; H. P. Herington, Toronto; L. G. Macpherson, Kingston; H. I. Ross, Montreal; Marcel Caron, Montreal; G. Y. Ormsby, Toronto; Paul Bruneau, Quebec City; D. F. C. Burton, Halifax; H. N. Jordan, Toronto; D. J. Kelsey, Vancouver; W. J. McDougall, Ottawa; W. E. Clarke, Regina; Paul E. Courtois, Montreal; E. N. Wright, Winnipeg; E. A. Christenson, Edmonton.

### Tax Savings for Individuals

Full details on how the 1957 amendment to the Income Tax Act concerning registered retirement savings plans can benefit the taxpayer

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are outlined in a 10-page booklet issued as a public service by the Royal Trust Company. The booklet gives information on the types of plans available through such agencies as professional or trade associations, insurance and trust companies, mutual funds, investment corporations and the government. Examples are set out to show the degree of tax saving possible. The booklet is available free of charge from any branch of The Royal Trust Company or Bank of Montreal.

**Per Capita Tax**

On a per capita basis, the tax revenue derived from every Canadian has increased almost 40 times since the turn of the century, rising from \$38½ million in 1901 to over \$4½ billion in 1957. In the same period the population of Canada has tripled, reports a study made by CCH Canadian Limited. The U.S. tax revenue has increased more than 100 times in the same period.

**Office Management Bibliography**

The 13th annual bibliography of books, magazine articles and pamphlets dealing with office management subjects has been released by the National Office Management Association. Almost 1,600 books and articles under 37 major classifications are reviewed. Copies, available from the Association, are \$5.00 each.

**C.I.C.A. PRESIDENT AT AMSTERDAM CONGRESS**

**Rapporteur of the session on "The Verification of the Existence of Assets", at the International Congress of Accountants in Amsterdam in September, Mr. J. A. de Lalanne, C.I.C.A. president, is shown delivering his summary of the papers. The full text of Mr. de Lalanne's paper will be published in the December issue of this journal.**

# Editorial

## GENERALLY ACCEPTED PRINCIPLES OF ACCOUNTING

THE RECENT revision of the first bulletin issued by the Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants in 1946 reminds us that accounting principles are not static, but develop over the years as experience and the needs of the business community dictate. While this is accepted as a truism by the accounting profession, it is certainly not understood by all general readers of accounting documents, many of whom assume initially a meaning for the word "principles" which is not intended. When they subsequently discover that accounting principles cannot be found in any one particular place nor have that high moral authority which they associate with the word "principle", some have concluded that they do not really exist.

The word "principle" is sometimes used in the meaning of a fundamental law. But principle is also used to mean a rule of general application and is so used in discussing such things as "principles of law" or "principles of economics". This is the meaning – and the only meaning – that is implied by "principles of accounting". They are not unchanging edicts like the Ten Commandments (which are the moral principles of our society) but are rules of general application within the field of accounting. And they certainly do exist.

Over the past 20 or 25 years the accounting profession, in adapting itself to changing requirements, has both defined more clearly and amplified the body of accounting principles with the result that these principles have assumed an importance to the practising accountant today which his predecessor would have found strange.

Where, then, is this body of accounting principles to be found? First, they will be found or illustrated in the results of day-to-day decision making reflected in companies' financial statements. Then again, they will be found in accounting literature, both in magazines and text books. But the clearest and most authoritative expositions come from the published bulletins of the various accounting bodies.

The American Institute of Certified Public Accountants was the first body to give formal recognition to accounting principles and, in 1938, formed a Committee on Accounting Procedures authorized to publish accounting research bulletins. Since then, 48 bulletins

have been published. About two years after the American Institute's Committee was set up, the English Institute undertook a similar responsibility and from time to time it has issued bulletins on matters of interest to English accountants. Canada did not lag far behind. In 1945, the Canadian Institute of Chartered Accountants formed a Committee on Accounting and Auditing Research which, to date, has issued 14 bulletins.

The first was published in 1946 and dealt with standards of disclosure in annual financial statements. The standards suggested may not look very lofty compared to the information now being furnished to shareholders by most companies, but they were in advance of the practices of many companies at that time. The second bulletin dealt with financial statements and other matters relating to prospectuses. Together these first two bulletins can be considered as the Canadian profession's contribution towards establishing what are appropriate standards of disclosure in financial statements submitted to shareholders and prospective investors.

Three of the committee's bulletins are in the field of auditing, the others deal with accounting matters. In some cases the bulletins have attempted to codify generally accepted accounting practices, (for example, Bulletins Nos. 4 and 5 which deal with the allowance for bad debts and the meaning of the term "cost" as used in inventory valuation). Two bulletins, Nos. 9 and 11, deal primarily with terminology, although a reading of them will show that it is impossible to discuss accounting terminology without moving into the field of accounting principles. The general acceptance by Canadian business of the recommendations in these latter two bulletins has done much to improve the readability of financial statements, to remove public misunderstanding of the words "Reserve" and "Surplus", and to define more sharply the meaning of those magic words "Net profit for the year".

Other bulletins have dealt with topical subjects and in such cases the committee has been primarily concerned with giving guidance on new matters where generally accepted accounting principles have not yet been developed.

Except where recommendations are subsequently enshrined in Acts of Parliament or governmental rules and regulations, these statements have no authority other than general acceptability to the membership of the opinions they set out. But the very general acceptance of these opinions by Canadian companies and their auditors show that this is a very real authority indeed.

Most of us would surely agree that the development of these accounting principles has been beneficial to the continuance of our present economic system. For they are part and parcel of the honest means of communication which must be maintained if the public is to have confidence in the integrity of financial statements and in the management of the companies that issue them.

# The Internal Auditor

L. G. MACPHERSON

As a recognizable business function, internal auditing is a very modern development. While its roots reach back at least to the efforts of feudal lords to confirm the accounts of their agents, the form and status of internal auditing received their first public recognition upon incorporation of the Institute of Internal Auditors in New York in 1941.

Subsequent developments in internal auditing have been so rapid that it is difficult today to mark its boundaries. Some writers seem to suggest that internal auditing embraces the whole field of business operation, while some cautiously believe that it should be confined to the traditional auditing function.

**Protection, Verification, Consultation**

A reasonable approach to the nature of internal auditing emphasizes the two aspects of protection and verification, to which a third, the advisory function, is often added.

The importance of verification as the earliest function of the company-employed auditor is suggested by the work of the 19th century railway auditor who checked ticket agents' sales reports and stocks of tickets, and by the system of bank inspection which has long been a significant factor in branch banking. The internal auditing of branch banks has developed to such a highly efficient operation that shareholders' auditors of Canadian banks are able to devote most of their attention to head office records. An examination of the very large branches and possibly a few smaller branches, together with the work of the bank inspection staff, provides an adequate review of branch affairs.

The function of protection is inseparable from the function of verification unless the latter is looked upon merely as a matter of clerical proof of accuracy. Checking, however, is not carried on for its own sake, but for the results that it will help to obtain, and the chief of these is that of safeguarding the company's assets and, in a broader sense, their proper use and disposition.

Here we have a natural environment for great expansion of the internal auditor's responsibilities, since the broad protective function, embracing much more than accounting

A paper read to the International Congress of Accountants, Amsterdam, Sept. 1957

accuracy, may reach out to every part of the business operation.

The protective activities in any enterprise are related to the problems of planning, organization and methods. Governmental bodies have established organization and methods sections to perform important functions of investigation, consultation, planning and advice. Similar sections have been set up as methods divisions in some firms of public accountants. Industry relies for this service not only upon its executive officers but also upon external management consultants.

The developments which have been traced present a number of questions concerning the function and status of the internal auditor, including his status within the company, the desirable degree of independence, the scope of his duties and responsibilities, and the relations of the internal auditor to the external auditor. These questions have all received such able attention at conferences and in the literature of internal auditing, that one might think that any further comments would reflect either temerity or brilliance. The task, however, has been undertaken in the humble belief that discussion of auditing and accounting subjects at an international congress is bound to advance mutual understanding of an increasingly complex field, and to that end neither an excess of courage nor the talents of a genius need be sought.

**Status and Independence**

Much has been said and written on the subject of the auditor's independence. Independence is relative, not absolute. It is a function of the mental attitude of the individual concerned, influenced probably by his personal economic situation and the social relationships involved.

Professional independence is such an important attribute of public accounting that the idea of independence carries over inevitably into the theory of internal auditing. The internal auditor cannot, however, attain the degree of independence in his operations that is characteristic of the shareholders' auditor. Top management would surely be in an unenviable position if a company employee, located somewhat lower on the organization chart, reported independently to the shareholders. The unlucky employee designated as internal auditor in such an arrangement would find his position wholly untenable unless he confined his attention strictly to routine matters. Soon the conclusion would be reached that the more independent the internal auditor might be in his relationship to top management, the less valuable would he be to that management.

Nevertheless, a psychic independence is vital to the auditing process, and should be supported by suitable status within the organization. It is appropriate to expect, in the internal auditing, an independence with respect to audits of operations at all levels below but not at levels above the organizational status of the audit department. The degree to which the internal audit will facilitate the shareholders' audit will bear a close relationship to the internal auditor's independence of the departments subject to the internal review. In terms of general organization, this means that the audit section should not be part of the accounting department. It may well be part of the staff of the chief financial officer, if the latter is a senior executive and a member of

the management committee. In terms of operations, it means that management should not allow audit staff to be substituted for accounting staff in temporary situations without recognizing the corresponding loss of independence and, in consequence, the reduction in reliance to be placed on the internal audit by the external auditor and by management itself.

In each case the external auditor tries to evaluate the independence of the internal auditor with respect to each department separately, knowing that it will vary according to the plan of organization and according to the degree to which the audit staff has actually participated in the work of the various departments by supplying temporary help, by originating entries, and so on. The significance of the internal audit as a part of the internal control will be measured to a considerable degree by this evaluation.

### An External View

Some observers have made a distinction between the protective functions and the constructive functions of the internal auditor. The protective responsibilities are those related to the control of assets, authority for expenditures, adherence to established policy, and acceptability of accounts and reports, while the constructive functions include the critical evaluation of policies, techniques and performance with recommendations for improvement and correction. A well developed internal audit will integrate the two types of functions, but if a choice must be made between them, the emphasis should be placed on the protective aspects, since occasional employment of the specialized services of management consultants can provide good doses of critical evaluation.

The protective functions direct the internal auditor's attention to the quality of the whole system of internal control. He should be expert in the methods of internal control, and knowledgeable as to his company's control procedures. His examinations and reports should stress the importance of the separation of operating responsibilities, custody of assets and initiation of transactions from the recording and accounting aspects. He should be wholly familiar with the actual operation of the company's system of built-in accounting controls known generally as the system of internal check.

Where the accounting is decentralized, as in many multiple unit enterprises, an obvious need exists for constant review and direction as to consistency in the application of accounting principles. Where the company employs integrated or electronic data processing methods, accompanied by centralized accounting, a continuous familiarity with the techniques and especially with the programming in use is essential. In every case, proficiency in procedures and methods will contribute to accounting control, and in these matters the internal auditor should be an effective influence.

The evaluation of procedures and methods often leads the internal auditor into a function similar to the systematic "organization and methods" work already established in governmental services and in some business concerns. To a degree this as a corollary of the protective function of the auditor, since conservation of assets includes their efficient use and the prevention of fraud, but beyond a point it will absorb the time of the in-

ternal auditor at the expense of the functions which warrant his title. In many instances, organization and methods services can be provided better by external practitioners with broad experience, and many public accounting firms now have methods divisions devoted to this work.

From the viewpoint of the external auditor, any pronounced tendency on the part of the internal auditor to move from the protective function toward the advisory function and the appraisal of policy is regrettable. There is still a great need for the proof of accuracy and the application of accepted principles and policies, and the avoidance and detection of fraud and error. There is always a danger that the activities of the internal auditor will penetrate so far into the advisory or so-called constructive duties that he may be tempted to provide expert advice on the whole range of operations. He must then become an expert not only in accounting but in finance, procurement, production, warehousing, marketing, personnel administration and public relations. In other words, he would need to function as might a completely diversified management consulting group. The existence of such a superman, giving advice on every business activity, would surely distress top management and alarm the consulting specialists.

The prime responsibility of internal auditing should be the maintenance of internal control. This of course includes what is called the prevention of fraud, although no absolutely fraud-proof system is likely to be devised. The position of the chief financial officer of any large company emphasizes the importance of detection and prevention of fraud. He is dependent upon the internal auditor for whatever information and sense of security he has with respect to the operation of the internal controls. The auditor who recognizes this relationship will accept not only the function of review and measurement of the application of company policy, but also the responsibility to advise and recommend with respect to defective control and the means of improvement.

**The Shareholders' Auditor**

The shareholders' auditor must form and express his independent opinion of the annual financial statements of the company. To do so he must, among other things, satisfy himself as to the reliability of the accounting records. An important part of this process is the investigation of the system of internal control, including any internal audit in operation.

It is a well established principle that an external auditor may rely extensively on the work of an internal audit department if, by review and appraisal of the operations of that department, he has satisfied himself as to its effectiveness. He may, in his examination of the system of internal control, benefit from the internal auditor's knowledge of the system. He may focus his attention on parts determined by the reports and program of the internal auditor, but he must satisfy himself by tests and inquiries that things are as they seem, and that the internal controls are operating as they are supposed to do.

Audits by public accountants will never be compressed entirely into audits of internal audit departments even in the case of very large companies, although to some this might seem to be a logical result of certain current trends. There are, however, many ways in which an effective in-

ternal audit will assist the external auditor, especially in minimizing his examination and review of ordinary operations and transaction details, and to some extent in the balance sheet verifications, but these cannot eliminate the tests and examinations which are essential if he is to form an independent professional opinion on the credibility of the representations of the company's officers.

**Use of Internal Audit Staff**

The staff of a client cannot be allocated suitably to the duties of the external auditor. The clients' staff will almost certainly lack appropriate indoctrination and training, especially where the person is not part of the internal audit staff. There is likely to be a failure to switch viewpoints, and there is a danger of conflicting loyalties. But this does not bar the use of client staff to minimize the detail work.

The internal audit staff can assist, for example, in the confirmation of receivables either by rotating the sections confirmed or by preparing the documents for mailing. It can participate in cash counts and in the observation of stock-taking procedures and can prepare required schedules and analyses with a skill and understanding, based on its auditing experience, which is not likely to be found in the accounting department.

The great value of cooperation between the internal auditor and the external auditor is evident. It is almost painfully clear in some instances, where the external auditor does not share the internal auditor's technical facility in the industry. Where, for example, the external auditor is verifying stock in trade he may find that personal contact with some products is useless, if not even dangerous, in the absence of highly specialized skill, knowledge and judgment. This may be so in the case of isotope products, wholesale drugs, gas in storage wells, pulp wood in block piles, logs in booms, and specialized electronic instruments. In some such cases there will be an understandable willingness to rely greatly on the internal auditor.

An able internal auditor will be fully informed as to his company's system of internal control and its effectiveness in operation. This may serve to shorten the usual process of review of internal check, if he is given the opportunity of conveying his knowledge to the shareholders' auditor. Shareholders' auditors who have found that the internal control questionnaire can be a tedious and sometimes exasperating device may restore their faith in its usefulness by inviting the cooperation of the internal auditor in its completion. This is to be preferred over an alternative method sometimes used, in which the internal auditor is blandly requested to supply a detailed description of the system of internal control in use. The auditor who recognizes that the control points in an extensive system may be virtually innumerable will suffer a moment of consternation before he decides that what is wanted is a complete copy of the company's procedures manual.

All of these possibilities of cooperation — in verifying cash, confirming receivables, examining stock in trade, surveying the system of internal control, and preparing working papers — present valuable opportunities, but they are secondary to the most important consequence of an internal audit insofar as its effect on the external audit is concerned. That is the possibility of greatly reducing the shareholders' auditor's attention to

transaction details, freeing him to devote reasonable time to the assets and liabilities, the analysis of operations, and the appraisal of the fairness of the financial statements.

The external auditor cannot accept the work of the internal auditor as part of his own. He cannot merge the internal audit staff temporarily with and as his own. He cannot avoid responsibility for satisfying himself as to the fairness of statements simply because the internal auditor has reported a firm and clear opinion. Nevertheless, he can, by review and examination, assure himself of the attitude of independence of the internal auditor at each level of operation. He can and should review the internal auditor's completed program of work and his reports. If conditions are favourable, he can come to his own substantiated opinion by a much shorter route and by a more specialized examination than would otherwise be the case.

**Differences between External and Internal Auditor**

A few thoughts on the differences between the internal auditor and the external auditor, as to viewpoints and responsibilities, may be relevant to the possibilities of cooperation.

The respective attitudes towards company policy and accounting principles on the part of internal and external auditors serve as a good example of such differences. The internal auditor must be concerned to see that company policy is followed even if that policy conflicts with accounting principles. He may of course make recommendations to change the policy, but failing success in such recommendations, he has a responsibility to see that the policy is followed regardless of the conflict. The external auditor, on the other hand, is concerned with the application of accounting principles, even though company policy may be opposed. The internal auditor will report serious deviation from company policy, whereas the external auditor will report serious deviation from generally accepted accounting principles.

Consider, also, the relative positions of the internal and external auditor in circumstances where the accounting treatment of certain material transactions is grossly objectionable. The internal auditor has no way of carrying his views beyond the level of management to which he reports, but the external auditor must, as a matter of conscience and ethics, see that the matter is either adjusted or reported on, and his report, if he is serving as shareholders' auditor, will become public to a degree.

Another contrast is evident in the grounds for mutual interest in the effectiveness of internal control. The internal auditor is charged with the protection and conservation of the company's assets, and an adequate system of internal control is the means of discharging that responsibility. The external auditor's concern with internal control is in its bearing on the scope of his audit. In his view the extent and quality of internal control is a matter of decision by management. He may be prepared to advise, but when he does so he serves as a business consultant and not as auditor.

Further differences in viewpoint may be found in the fact that, to the external auditor, the work of the internal auditor is a part of the whole system of internal control, while the internal auditor will view his own work largely as the employment of

audit procedures common to both internal and external audits, including the review of internal check.

Finally, there is a unique term used to describe an internal audit technique. This is the word "perambulation". However perambulation is not limited to internal auditing, for external auditors also indulge in the practice of walking about and observing things. This is just one more bit of evidence to show that internal auditors and external auditors, with mutual respect and confidence, and with similar attitudes of mind and spirit, but from somewhat different viewpoints, are working toward the same ideals. Cynics avoid ideals but their recognition and acceptance appear in business leadership today. Ideals symbolize the objectives of those who look beyond selfish interests to the common good, and should mark the character of the professional in any field.

## MEANING OF AUTOMATION

In practice, automation has several meanings. It includes, for example, developments that are no more than advanced mechanisation-transfer machines in engineering, many kinds of machinery for making finished goods, and mechanical equipment for handling and assembly. Machines of this kind are automatic in that they do the actual work on their own; the operators only watch them and correct them when they go wrong.

But automation can also mean automatic control of processes and machinery, and this is a very different thing from mechanisation, though the two go together. Control is necessary in a vast number of processes in order to maintain the quality of a product when the operating conditions, such as temperature and pressure, change from time to time. In the past, human operators have usually noted the changes and made whatever adjustments are necessary; but it is becoming possible in more and more processes for control to be exercised automatically by self-correcting mechanisms. Where this happens the operators become merely supervisors, though they have more machinery to look after than before.

Let me give two examples. In one factory, a British plant making building boards, the raw material is ground, dried, spread with a mixture of resin and hardener, laid out as a carpet, pressed, trimmed and sawn into lengths on one continuous machine which, once set to get the right results, is automatically controlled.

In the other factory, a piston factory in Russia, the raw material is automatically melted, rough cast, and put into store until it is needed for machining. Machining and transfer from machine to machine are also automatic from start to finish. The two production lines on each shift are operated by only ten workers!

—From an address by C. J. Hatty, Minister of the Treasury, Southern Rhodesian Territorial Government, published in *The Secretary*, September 1957.

# Accounting for the Newspaper Industry

GUY W. SMITH

OVER A THOUSAND newspapers are published in Canada today. Making up this surprising total are about 100 dailies with circulations ranging from 2,000 to approximately 400,000, 750 rural weeklies and 300 suburban weeklies. Because of the varying size of these operations the accounting requirements differ widely. There are, however, certain basic features that are applicable to all.

The standard chart of accounts for newspapers published by the Institute of Newspaper Controllers and Finance Officers summarizes the natural classifications of revenues and the conventional departmental expenses as follows:

*Revenue*

- Advertising revenue
- Circulation revenue
- Other newspaper operating revenue

*Expenses*

- Editorial
- Mechanical
- Newsprint, ink and supplements
- Distribution and circulation
- Advertising
- General, administrative and service.

For monthly and annual reporting, it has been found helpful to management to show job printing separately from other revenue, separate business office expense from general, administrative and service, and break down mechanical expense into engraving, composing, stereotype and press. Where the building is owned by the company, revenue and expenses of the building may be shown separately.

The primary purpose of the first newspaper was the dissemination of news as a service to the subscriber. In today's paper, however, the news content may be less than 25% of the available space and the revenue derived from advertising as high as 80%. The paid circulation of the newspaper governs the rates to be charged for advertising. For this reason the publisher aims constantly to increase the number of readers. Special features and other attractions as well as promotional inducements are used to obtain and hold circulation.

The printing of the newspaper is a daily or weekly operation and each edition represents a complete cycle. Thus, the accounting records of expenses can be planned so that the monthly statement will present a summary of the costs of production and distribution. These can then be

applied by departments to the units produced or in total to the services rendered the readers or advertisers. As advertising revenue represents a major portion of the income, it is reasonable to regard advertising as the main product and circulation the by-product. Under present conditions, the revenue from the latter is usually less than the cost of newsprint and ink. The total expenses less the revenue from circulation can therefore be considered as the cost of the advertising content of the paper and applied to the advertising lineage to arrive at the cost per line.

### Advertising Revenue

The three classes of advertising revenue are general, retail and classified. These are subdivided to show the location of the advertiser, the method of obtaining the business and the position in the newspaper and may be further broken down to show black and white and colour printing.

The recording of revenues from general and retail advertising is simply the accumulation of the billings to the advertisers. Amounts are based on the lineage at the applicable rate per line. The lineage is determined by measuring the newspaper or the original copy from which the advertisement was set. The rate arranged with the advertiser may be on a contract or single insertion basis. Sometimes it is variable according to the total lineage used in a contract period. An adjustment may be necessary if the lineage required to earn a certain rate is not reached or is exceeded in the period. As a stated rate will be used for monthly billing, a rebate may be payable at the end of the contract period. It is customary to make provision in the accounts during the term of the contract for this rebate. In some cases, the lineage used by the advertiser is accumulated for the month or billing period, and one extension is made. Many advertisers, however, prefer to receive an invoice for each insertion.

Recording of revenue from classified advertising presents many problems. These arise from the transient nature of the business, large number of small transactions and cancellation of insertions provided for in the original order with a consequent change of rate. Many publishers record this revenue on a cash received basis.

An adequate system of internal control should be maintained to make certain that all revenue is ultimately taken into account. Where the amount of this business is of sufficient volume, a control account should be maintained. This control is made up of the amounts charged to advertisers with a corresponding credit to revenue. Necessary adjustments made through this account are caused by a change of rate affecting revenue, and make-goods or credits to the advertisers due to incorrect insertions. For these, the corresponding charge should be to expense. The number of adjustments due to change in rate may be minimized by billing after the last insertion. Cash receipts are credited to this control and the resulting balance represents the uncollected accounts. Uncollectible accounts are written off against the allowance for doubtful accounts. The advantages of this control account are that revenues are shown on an earned basis, and the expenses due to incorrect insertions and the uncollectible accounts are reflected in the respective expense accounts.

Many newspapers use multiple-part forms for recording classified advertising, with the various parts used for billing, collections and control. In the larger newspapers punch card accounting may obtain the speed and accuracy necessary in handling the large volume of these relatively small individual transactions.

The advertising lineage carried is accumulated along with the revenue from the various classifications so that the revenue per line may be compared with the rate schedules and records of prior periods. This is helpful in determining the accuracy of the billing procedures and measuring the results against past performance.

Media records are compiled daily in the larger newspapers showing the total advertising lineage for each paper published subdivided into various classifications such as automobiles, tobacco, cosmetics as well as the lineage carried for the larger advertisers. This record assists the advertising sales organization in directing their sales effort.

**Circulation Revenue**

Circulation revenue is most frequently analyzed according to the methods of distribution and collection — carriers, dealers and agents, mail subscriptions, newsstands, street, counter and other sales. Further breakdowns are made between city, suburban and country circulation and in the larger newspapers between morning, evening and weekend editions.

Although some smaller newspapers record circulation revenue on a cash received basis, it is recommended that an accounts receivable control be maintained for the various classes of circulation and that revenue be taken into account on a delivered or earned basis. With mail subscriptions paid in advance, cash should be credited to a prepaid subscriptions account and revenue taken on a delivered basis. The balance of prepaid subscriptions should be shown in the financial statements as deferred revenue.

Most newspapers are members of the Audit Bureau of Circulation, an independent organization that audits average paid circulation under various classes. Its reports are available to the advertiser as a verification of the circulation claimed by the publisher. For the bureau's use, a standard form known as the A.B.C. record is maintained, showing the daily distribution of the newspaper. This is verified by periodic audit. In this record the gross press run is reconciled with the total paid circulation and broken down into various classes of distribution. It also provides a basis for comparing the revenue per unit of circulation for the month with the rates chargeable under various methods of distribution.

In view of the high cost of newsprint, an adequate control on returns is important. A small reduction in the percentage of returns may result in substantial savings if the circulation is large.

**Other Newspaper Revenue Account**

The purpose of this account is to pick up income other than advertising and circulation but related to the newspaper operation. This includes proceeds from sale of waste newsprint, stereo mats and metal, sales of photographs, news reprints and patterns and other service department revenue. The costs applicable to certain of these items should be trans-

ferred from expenses. This account should not be used for income unrelated to newspaper operation such as rental of building space, gains on disposal of fixed assets, and interest and dividends earned.

Job printing is often a significant item in other newspaper income. It is not unusual for larger newspapers to print copies of advertisements in quantity to be supplied to the advertiser for distribution from door to door in localities where the newspaper has not full coverage. Some newspapers do a large amount of outside job work using part of the mechanical newspaper facilities and skilled staff.

If job printing revenue is shown separately, the applicable newsprint, ink, labour and overhead should be transferred from the respective expense accounts to a job printing expense account.

**Editorial Expenses**

Editorial expenses include those incidental to producing the non-advertising portion of the newspaper, i.e. front page, women's page, editorial page, sports section, financial section, etc. They include staff salaries, syndicated and other special features, cuts and photographs, telegraph services, local correspondence, travelling and other incidental expenses.

**Mechanical Expenses**

As suggested, the mechanical expenses may be shown separately by departments — engraving, composing, stereotype and press. These will include wages, machine repairs, electric power for each department and various direct material expenses such as metal, chemicals and film for engraving, composing metal, stereotype metal, blankets and matrix paper. Because of the difficulty of taking inventories of metal, many newspapers maintain a normal supply as an item of plant. The replenishing of this supply is then charged to expense.

**Newsprint, Ink and Supplements**

Next to salaries and wages, newsprint represents the largest single item of expense and in view of the waste factor must be adequately controlled. The basis of this control is the identification of the rolls of newsprint which show suppliers' numbers as well as the weight. The roll numbers and weight may be recorded upon receipt and traced through storage to ultimate use in the press room. The wastage in the pressroom is reported daily and a record kept of all returned newspapers. The total of wastage and returns can be compared with the weight of waste paper sold as a test that all sales are being taken into account. The newsprint weight per thousand printed pages can be calculated fairly closely. With this information and taking the actual wastage into consideration the newsprint consumed can be accounted for with reasonable accuracy. Statistical records should be kept to compare consumption with prior periods. Inventory control of paper cores will assure that proper refunds are received on return of the cores to the supplier. Freight and cartage on newsprint, usually a substantial consideration, should be charged to expense as the delivery to which it is applicable is consumed.

Ink including freight, duty and

storage can be accounted for through an inventory account which should be adjusted for amount used by monthly stock-taking.

Supplements represent purchased sections or inserts and should be charged to expense as they are used.

**Distribution Expense**

This includes circulation office salaries and expenses; mailroom wages and supplies such as paste, twine and wrappers; circulation promotion by canvassers, contests and other methods; cartage, postage, express, motor truck and other delivery expense; branch and district managers' salaries and expenses and carriers' expense. The distribution expenses may be further broken down to show separately expenses applicable to city, suburban or country circulation.

**Advertising Expense**

This represents the expenses in connection with selling advertising and includes salaries and expenses of the sales organization, commissions to advertising agencies, representation outside the local district, mat services, promotion and other sales expenses and applicable office expenses. Further reclassification may be made to show the expenses incidental to general, retail or classified advertising.

**General, Administrative and Service**

As mentioned above, business office expenses, including salaries, postage, printing and office supplies and bank collection charges, may be shown separately. This classification also covers executive salaries and expenses, employees' welfare such as unemployment insurance, group insurance, pensions and retirement plans, business taxes, insurance premiums, charitable donations, general promotion such as radio, magazines and trade papers, damages for libel, legal and other professional fees and other general expenses.

**Depreciation**

Depreciation should be provided on land improvements such as parking areas and fences, buildings including elevators and air conditioning, furniture and fixtures, machinery and equipment, automobiles and trucks and leasehold improvements. The object of depreciation is to allocate the cost of the facility to successive periods of time by a systematic procedure calculated to complete the process by the time the asset is retired, taking into consideration the salvage value if any. This allocation may be made on either a straight line or reducing balance method.

If management so wishes, the depreciation charges may be allocated to the departments affected.

**Bad Debts**

Provision should be made for uncollectible accounts based on estimated requirements. The corresponding credit is made to allowance for doubtful accounts to which actual worthless accounts should be transferred.

**Comparative statements**

Through comparison progress is measured. The monthly statements of newspaper operations should show deviations from the results of prior periods or from budgeted forecasts. Management is thus guided to correct shortcomings or continue satisfactory performances. The increase or de-

crease will indicate the importance of changes. Percentage tables can also reveal the extent to which a variation may affect results. To be of maximum corrective value the monthly statements should be prepared as soon as possible after the close of the period.

### Statistics

Certain information not included in the books of account may be accumulated for presentation on comparative monthly or periodic statements for management. Some of the items which might be included are shown below.

#### COMPARATIVE MONTHLY STATEMENT

| | Colour — Black and White |
|---|---|
| Lineage: | |
| Lines general | |
| Lines retail | |
| Lines classified | |
| | ———— |
| Lines total | |
| | ———— |
| Days published | |
| Average pages | |
| Average columns: | |
| News | |
| Paid advertising | |
| Promotion | |
| Other | |
| | ———— |
| Total | |
| | ———— |
| Paid advertising columns % | |
| Circulation: | |
| Average paid | |
| Bulk sales | |
| Service and unpaid | |
| Other | |
| | ———— |
| Average press run | |
| | ———— |
| Returns % of average paid | |
| Editorial cost per column | |
| Newsprint and ink cost per column | |
| Newsprint consumed: | |
| Used, tons | |
| Used per thousand pages | |
| Waste % | |

**Budgeting**

A budget of revenues and expenses will assist management in planning and controlling the operation of the newspaper. It should follow the form of the accounting system in use so that the monthly statements would present a comparison of the actual results with the budget figures. This enables management to investigate the revenues and departmental expenses which vary from the forecast. From the budget figures, estimates can be made of cash that will become available from earnings retained in the business and depreciation and other charges not requiring cash outlay.

**Break-even Point**

The expenses of a newspaper operation, except for the cost of newsprint used, and the revenue from circulation are not variable to any great degree from day to day. It is, therefore, possible by applying the expenses less circulation revenue to the advertising revenue earned per line to determine the lineage necessary to cover expenses. The amount of newsprint used can be controlled daily by relating the number of pages to be printed with the advertising lineage to be carried, thus regulating the size of the paper daily according to the revenue producing content. In this respect the newspaper business is unique in that the profit of the operation depends not only on the revenue available but also on the daily control of one of the larger elements of expense.

## PROFESSIONAL INTEGRITY

The practice of a profession is in many ways similar to the management of a business. The accountant in public practice, if he is to perform adequately the services entrusted to him by his clients, must himself be efficient; he must select and organise his staff so that they too are efficient; he must operate in suitable premises and with modern equipment. A high standard of professional integrity is no excuse for dilatory or inefficient work. Indeed is not the true position that professional integrity, if that word is to be interpreted in a proper way, requires a higher standard of efficiency than that existing even in a well-run business? Our clients trust us to execute with speed and efficiency the work which we undertake for them, and it is frequently difficult for them to assess the standard of our performance. In so far as we fail in any case to give timeously of our best work, we fail to maintain the highest professional standards.

— Prof. Robert Browning in "The Accountant and His Clients", *The Accountants' Magazine*, September 1957.

# The Slide Rule

J. H. GOUGH

ACCOUNTANTS SPEND much time and effort in keeping up to date with the latest office machinery and equipment, including electronic computers with their automated data processing systems. Yet one device developed in the 19th century has been almost completely ignored by probably 99 out of 100 accountants. This device is the slide rule, which is so useful to an engineer, and could be quite useful to an accountant. It is faster than an electric calculator for calculating simple problems like 1% interest on \$143 for 14 days or the percentage of 448,983 to \$5,252,167. How often have you jotted down a few figures on a scratch pad and worked out a percentage, overhead rate, inventory turnover, or rate of return? Some accountants do it every day, some less frequently, but most have done it many times. Would it not be more efficient to perform these calculations on a slide rule? All it needs is patience and practice, and an investment of five dollars.

The slide rule is ideal for calculating ratios where accuracy to three figures is sufficient. It is also practical to use in solving problems in multiplication and division where the answer is desired in approximate form only. A five-inch slide rule costing \$5.00 can be accurate up to three figures and is adequate for the beginner. It is well worth the small amount of time and money required to learn how to use it. Once you master it you will find applications where it is faster to use a slide rule than the most modern electric calculating machine, and the slide rule has the advantage that you can put it in your pocket or keep it in your desk drawer or brief case. However, mastery of the slide rule cannot be obtained through the slight urge of idle curiosity; it requires practice and determination.

**Purpose v. Principle**

The main purpose of the slide rule is to perform multiplications and divisions, and it uses the principle of adding the numbers to be multiplied and subtracting the numbers to be divided. This apparent contradiction between purpose and principle is made clearer when it is pointed out that the scales marked on a slide rule represent the logarithms of the numbers shown. For those who are rusty on high school algebra, the definition of the common logarithm of a number is that number which, when used

as a power (or index) to the base 10, will equal the given number. For instance, the logarithm of 10 is 1, as $10^1 = 10$, the logarithm of 100 is 2, as $10^2 = 100$. The product of 10 x 100 is 1,000, or $10^3$, which is obtained by adding the indices of $10^1$ and $10^2$. On a logarithmic scale, if the log of 10 is represented by 2½ inches, then the log of 100 would be represented by 5 inches, and the log of the product of the two numbers, 1,000, would be represented by 7½ inches, which is obtained by adding together the two lengths. If the logs of all the intermediate numbers between 1 and 10 were entered on the scale, we would have a slide rule scale. Two such scales would make up the complete slide rule, one scale would be in a fixed position and the other would be movable.

The principle of operating the slide rule is to add and subtract lengths on a scale and to read the answer on the scale. To illustrate the principle, take two 12″ rulers and place them side by side lengthwise. Now suppose you wish to add 3″ to 4″ by using the rulers. Place the zero mark on ruler B under the 3″ mark on ruler A, and opposite the 4″ mark on ruler B is the answer of 7″ on ruler A. Suppose you wish to subtract 6″ from 9″. Place the 6″ mark on ruler B under the 9″ mark on ruler A, and opposite the zero mark on ruler B is the answer of 3″ on ruler A. The lengths on the rulers represent inches, but they could represent any equal units. On the slide rule they represent the logarithms of the numbers marked on the scale.

**Description of a Slide Rule**

A simple slide rule contains two pairs of scales, A and B, and C and D. The A and B scales represent the logs of the numbers between 1 and 100. The C and D scales represent the logs of the numbers between 1 and 10. Greater accuracy is possible by using the C and D scales as the scale distances are double those on the A and B scales, making them easier to read and to interpolate. Some slide rules have additional scales, but they are not essential for an accountant's use. The slide rule is equipped with a cursor, which is a movable glass plate through the center of which runs a hairline. The purpose of the cursor is to mark a reading on the fixed scale while moving the sliding scale for the next operation. Some cursors have a magnifying lens to provide for greater accuracy in the settings and readings.

Scale distances on C and D are marked 1, 2, 3, 4, 5, 6, 7, 8, 9, 1. Zeros are omitted on all scales, so it must be understood that the second "1" represents 10. Scale distances on A and B are marked in a similar manner except that the scale is shown twice and each scale is half the size of the C and D scale. The left-hand scale on A and B represents the logs of the numbers from 1 to 10 and the right-hand scale represents the logs of the numbers 10, 20, 30, 40, 50, 60, 70, 80, 90, 100.

Note carefully the number of subdivisions between the numbers on the scales. They range from 5 to 50. The value of one sub-division may range from 2 to .02. As a rule there are twice as many sub-divisions on the C and D scales as there are on the A and B scales, which is the reason for obtaining greater accuracy by using the C and D scales. A thorough appreciation of the various values of the sub-divisions, and the ability, by inspection, to determine their value

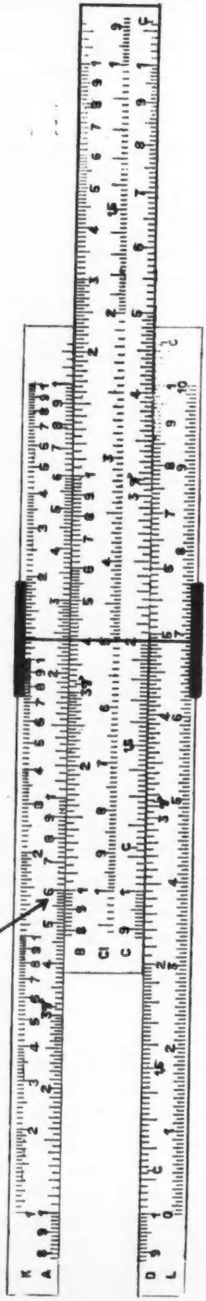

Fig. 1

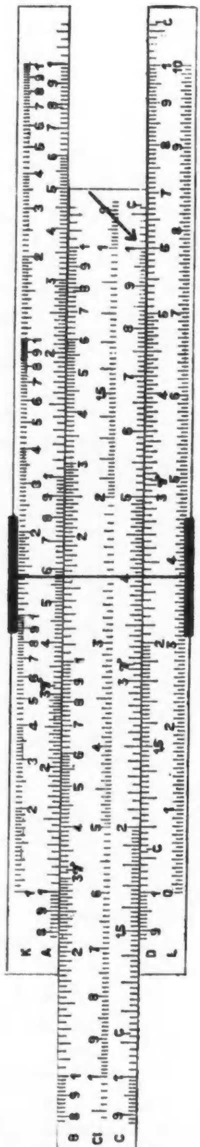

Fig. 2

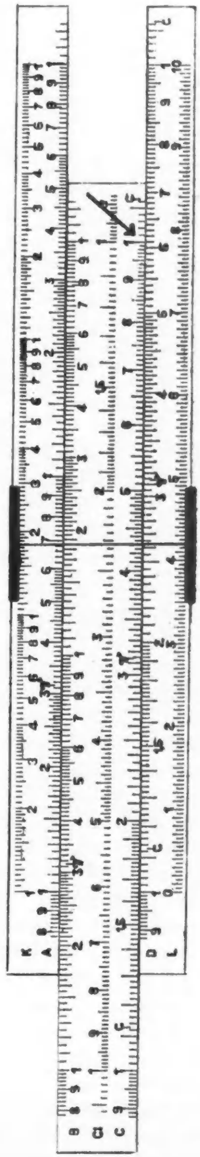

Fig. 3

EXAMPLES OF USE OF THE SLIDE RULE

rapidly, is a prime requisite to the efficient use of the slide rule. Proficiency in this comes only with practice.

**Specific Multiplications**

Suppose we wish to use a slide rule to multiply 60 by 40. It is obvious that the product exceeds the maximum value on either set of scales. Therefore, in order to fit the problem to the slide rule, the two factors must each be divided by 10 and the resulting product must be multiplied by 100. To multiply these two factors on the slide rule add the length representing 6 on scale A to the length representing 4 on scale B and read the answer on scale A. To do this, place the left-hand 1 on scale B under the 6 on scale A. (*Fig. 1*). Opposite 4 on scale B is the answer 24 on scale A, which, when multiplied by 100, gives us the correct answer of 2400.

The same problem may be worked out on the C and D scales, although at first glance it would appear that the product would be off the scale. Referring back to scale A for a moment you will notice that both halves of the scale are identical. If you place 1 on scale B opposite 6 on scale A, then 10 on scale B is opposite 60 on scale A, and if both scales were extended to the right you would see that 100 on scale B would be opposite 600 on scale A. It is obvious, therefore, that it makes no difference whether you use 1, 10 or 100 as the marker on scale B, as long as you make the proper adjustments to the decimal point in your answer. Knowing this fact we can now go back to the C and D scales and work out the problem. To multiply 60 by 40, place 10 on scale C opposite 6 on scale D, (*Fig. 2*), which is the same as placing 1 on scale C opposite .6 on scale D, except that .6 is off the scale to the left. Now add the length 4 on scale C to the .6 on scale D and you will find that opposite 4 on scale C is the reading 2.4 on scale D (*Fig. 2*). We have, in effect, multiplied .6 by 4, and to convert these factors to the original ones we must multiply them by 1,000. Therefore, the product 2.4 must be multiplied by 1,000, and the correct answer is 2,400. It is preferable to use the C and D scales in most problems because the greater number of sub-divisions make it possible to obtain greater accuracy in the scale settings and readings.

To multiply 61 by 43 is no more difficult except that it is necessary to interpolate the subdivisions correctly. Using the C and D scales again, the 10 mark on scale C is placed opposite 6.1 (*Fig. 3*), and opposite 4.3 on scale C is the reading 2.62 on scale D. Using a five-inch slide rule the hairline is not quite halfway between 2.6 and 2.65, therefore an interpolation is necessary, and 2.62 seems to be the closest reading. Using a ten-inch slide rule, which is more accurate, it is obvious that the reading is between 2.62 and 2.63. Multiplying the reading by 1,000 we find that the approximate answer is 2,620. In this particular problem it is possible to obtain an exact answer. It is obvious that the product of 61 by 43 must end in a 3, therefore add 3 to the approximate reading of 2,620 and we have an exact answer of 2,623. However, it is not usual to obtain accuracy beyond the third digit.

Suppose we multiply 613 by 432. In this case it is necessary to interpolate both factors as well as the product, as the scale readings do not generally provide for sub-divisions equivalent to hundredths. The pro-

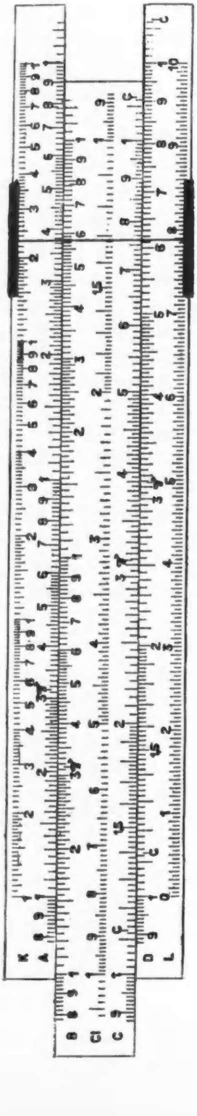

Fig. 4

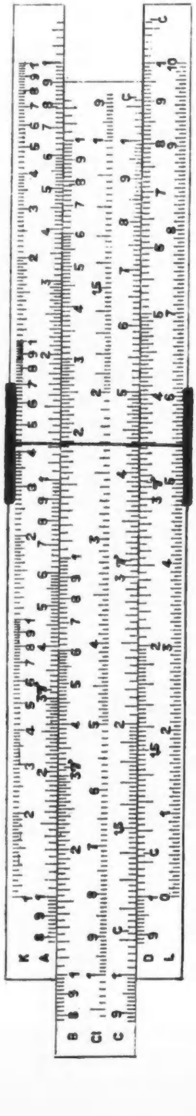

Fig. 5

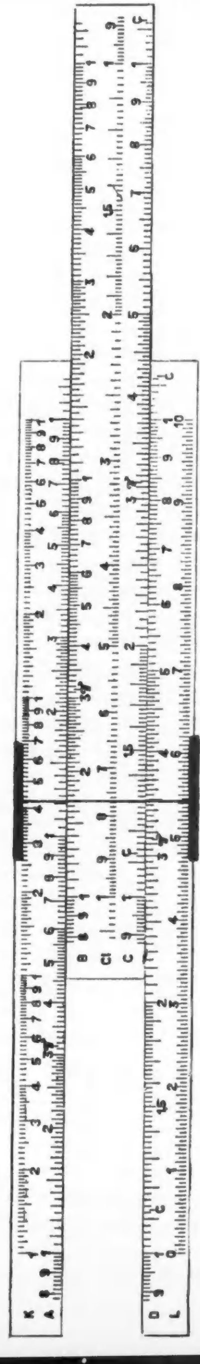

Fig. 6

EXAMPLES OF USE OF THE SLIDE RULE

duct reading on scale D on a five-inch rule is almost 2.65. So say it is 2.64, therefore the approximate answer would be 264,000. The exact answer is 264,816. Using a ten-inch rule it is apparent that the answer is approximately 264,700 or 264,800. If the factors had been 613,287 and 432,368 the approximate answer would not have been any different except for the number of zeros at the end of it. It is not possible to use more than three significant figures of a factor on the slide rule. If greater accuracy is required in multiplying six-digit factors the problem must be broken up into four problems and the four products added together to give the final answer. In the above instance the four problems would be as shown below.

As may be expected the use of the 10″ slide rule provides a more accurate answer. However, this method of multiplication may be of academic interest only, as it is too slow for those who want approximate figures, and too inaccurate for those who require exact figures.

**Determining the Decimal Point**

Determining the position of the decimal point is not difficult in most of the problems that an accountant is likely to perform on a slide rule. In many instances it can be done by mental arithmetic. For example, in multiplying 613 by 432 we know that the answer is around 240,000 (600 x 500). The scale reading of 2.645 is therefore raised to 264,500. Determining the location of the decimal point in working out percentages, ratios, overhead rates is not likely to present much of a problem either — it can be done by inspection. For those accountants who want to follow a system for locating the decimal point in problems involving successive multiplication and divisions, there are rules which may be followed.

To place large numbers on the scale it is merely a question of moving the decimal points until each number is given a value between 1 and 10, and counting the total number of places that the decimal points have to be moved to the left or right in order to give them these values. The decimal count for divisors is opposite to that for multipliers. The decimal count rule may be stated as follows:

| | *Decimal Count* | |
|---|---|---|
| | *Multipliers* | *Divisors* |
| Decimal point moved 1 place to the left | Plus 1 | Minus 1 |
| Decimal point moved 1 place to the right | Minus 1 | Plus 1 |

The decimal point in the answer to a problem may be determined quite simply by using the decimal count rule above. If the decimal count of all the numbers results in a plus

| | *Answers obtained using* | |
|---|---|---|
| | *5″ rule* | *10″ rule* |
| 613,000 x 432,000 | 264,500,000,000 | 264,800,000,000 |
| 613,000 x 368 | 226,000,000 | 225,500,000 |
| 287 x 432,000 | 123,600,000 | 124,200,000 |
| 287 x 368 | 105,700 | 105,500 |
| Approximate answers | 264,849,705,700 | 265,149,805,500 |
| Differences | + 315,967,916 | + 15,868,116 |
| Exact answer | 265,165,673,616 | 265,165,673,616 |

count the decimal point in the answer is moved to the right for the same number of places as in the count. If the decimal count results in a minus count the decimal point in the answer is moved to the left for the same number of places as shown in the count. The best way to make this point clear is to illustrate it with an example:

$$\frac{613 \times 432}{76 \times .013}$$

The decimal count for each of the numbers is shown in brackets beside the number: 613 (plus 2), 432 (plus 2), 76 (minus 1), .013 (plus 2). The total count is plus 5, which means that the decimal point in the answer must be moved 5 places to the right. In solving a problem like this one it is necessary to perform the multiplications and divisions alternately so that the readings will stay on the scale. The operation sequence for this problem would be:

*Step 1.* Divide 613 by 76
Move the cursor hairline to 6.13 on scale D. Move scale C so that 7.6 is under the hairline.

*Step 2.* Multiply by 432
Move the cursor hairline to 4.32 on scale C.

*Step 3.* Divide by .013
Move scale C so that 1.3 is under the hairline. Read the answer on scale D opposite 1 on scale C.

**Examples of Division**

Division is accomplished on the slide rule by subtracting the length representing the divisor from the length representing the dividend. To divide 613 by 76 in the problem above we subtract the length representing 7.6 from the length representing 6.13. First find 6.13 on scale D and place the cursory hairline over it (*Fig. 4*). Then move scale C so that the reading 7.6 is under the hairline (*Fig. 4*). The answer would be on scale D opposite 1 on scale C, but scale D does not extend that far. However, this does not matter as we do not require a reading at this stage. If we did want a reading we could get it simply by taking the reading on scale D opposite 10 on scale C. Of course the answer would have to be divided by 10 as we have multiplied by 10 in order to get it back on the scale. However, to get back to the problem—the second step is to multiply the first answer by 4.32, which means adding the scale length 4.32 to the answer obtained in step 1. This is accomplished by leaving the scales as they were for the first operation and moving the cursor to 4.32 on scale C (*Fig. 5*). The answer at the end of step 2 is on scale D opposite 4.32 on scale C. We are now back on the scale again. Note that the answers are always on scale D. Scale C is used only to add or subtract lengths from those on scale D. The answer at this stage is approximately 3.48, which after adjustment for a decimal count of plus 3 gives us a value of 3,480. The third step is to divide by 1.3. Leave the cursor hairline at the previous answer (3.48) and move scale C so that the reading 1.3 is under the hairline (*Fig. 6*). The answer is on scale D opposite 1 on scale C, and it is approximately 2.68 which, after adjustment for a decimal count of plus 5, gives us an answer of approximately 268,000. The exact answer is 268,032. After a little practice it should be possible to do this problem in 45 seconds. With more practice the time can be cut down to about 30 seconds.

There is another method of deter-

mining the decimal point which is based on whether the slide projects to the left or the right for each of the settings and keeping track of the number of left and right projections. This method may be found in almost any book on the use of the slide rule and may be referred to by those interested.

The slide rule may be of particular interest to an accountant in calculating percentages, such as the percentage of overhead to direct labour, the percentage to sales of the various items on the profit and loss statement, etc. An easy way to practice percentages, and to check your accuracy in using the slide rule, is to jot down several numbers, add them, and then find the percentage of each to the total. Try working out the percentages for the following problem:

| | |
|---|---|
| 54,176 | 50.2 % |
| 28,405 | 26.3 |
| 17,778 | 16.4 |
| 6,090 | 5.63 |
| 1,675 | 1.55 |
| 108,124 | 100.08% |

The percentages will not add up to exactly 100, but with a normal amount of care it should be possible to obtain an accuracy of ½%.

There is more to the slide rule that has not been covered by this article, but it is the author's hope that enough has been presented to arouse some interest. For those who wish to pursue the matter further there are a number of publications on the use of the slide rule, some of which are available for as little as $1.25 in most bookshops. The small investment of time and money is well worth the cost. Accountants, particularly those in industry or commerce, can find many uses for the slide rule. A word of caution should be mentioned. Do not be discouraged if you cannot master the slide rule easily. It takes patience and practice. If you come across something which you cannot understand, consult an engineer. He can help you and perhaps show you several short-cuts in applications of particular interest in your business.

## THE ONLY PRINCIPLE

*This observation was made by Mr. Justice Danckwertz in Gatehouse* v. *Wise (1956) 3 All E.R. 772:*

"It always is rather a discouraging pursuit to endeavour to find consistent principles in the statutes relating to income tax . . . . and I think that the only clearly discernible principle may be that of enabling the tax to be charged on the largest numbers of persons with the least exertion on the part of the officials entrusted with the duty of collecting the tax."

— *Taxes*, August 1957.

# The Modern Approach to Auditing - II

HOWARD I. ROSS

*(Continued from October)*

THE INCREASING emphasis on skilled analytical work in auditing and the auditor's inescapable obligation to set his own limits on the work he must do, both focus attention on the importance of the time element in auditing.

The importance of this aspect of auditing is quite basic and yet is often strangely ignored. Everything today tends to underline the importance of controlling audit time or, in other words, of working efficiently.

The trend of rising costs (with which everyone is unhappily familiar) has a direct bearing on this question. Everybody's costs have been rising lately, but particularly those of audit firms, as these firms started out originally with an apprentice systems which is rapidly disappearing. While we still pay students somewhat less than they could earn in industry (as a vestige of the old apprentice system) we are certainly now facing payrolls of quite a different order from those of 25 years ago. To the effects of inflation, which affect all payrolls, have been added the increases which are consequent on our emergence from apprentice salary scales. In the old days, it did not much matter what junior and intermediate staff worked at as they were being paid virtually nothing.

Perhaps we never did have what was technically an apprentice system in the profession in this country, but we certainly came pretty close to it. When I started working, my father explained to me that he was paying me as much per week as he had earned per month when he started out. He had no reason to deceive me and what he said was no doubt true enough, but considering the amount involved, it really did not make too much difference whether you got it monthly or weekly.

Those who remember the dismal thirties will recall that it was then simply a cause of amusement when it was discovered that the latest junior had spent the last two weeks in adding columns of voucher numbers. Now this sort of thing costs someone money. In the same way any unnecessary checking has become expensive.

The auditor is no more free of the demands of being efficient than any-

A paper presented at the C.I.C.A. annual conference, Saskatoon, Aug. 20, 1957.

one else. If a proper opinion, in a given case, can be reached after, say, 1,000 hours of audit time, any further expenditure of time is wasted.

The difficulties involved in determining the scope of audit are thus compounded. Just as it is becoming more difficult to decide on the extent of the work which an auditor must do, it becomes increasingly expensive to do more detail than is strictly necessary to accomplish the object of the examination. He must not skimp his work. He must be sure he goes far enough. This goes without saying, but he must not waste time.

Perhaps I might be permitted a personal reminiscence. I started out in the auditing profession just 25 years ago, as a hulking youth without even a B.Com. degree and the smattering of book-lore that goes with it. This was in 1932, and by way of training I was subjected to a number of maxims greatly favoured by my seniors. These were all along the lines of "Young man, take nothing for granted." It seemed to be the general impression amongst auditors themselves that they always probed every transaction to its utmost depths and that they never believed anything anyone said to them. On my first assignment, I started out as a junior member of a group to do the audit of a large modern corporation. We headed for our work with the advice "take nothing for granted" ringing in our ears. Fortunately we paid no attention to it or, I submit, we would still be there working on the 1932 statements. In auditing, as in any other human activity, you must end up eventually by taking something for granted. Compare what goes on in a court of law, where days of expert cross-examination are devoted to finding out where the butler was on the night of June 8, and often the matter is one of conjecture even after the most exhaustive examination of witnesses and the most brilliant sifting of evidence.

In modern business the auditor is confronted with an enormous volume of transactions, each one of which could be probed indefinitely. No matter how far the auditor goes, there are always further documents which could be scrutinized and more people who could be questioned. Quite literally there is no end to the work that could be done. In these circumstances, it becomes a matter of judgment how far to go. All modern trends seem to make it more difficult to decide these questions and thus to put a greater and greater premium on good judgment.

### Practice and Preachment

Everything I have said so far is, I suppose, the usual commentary of papers on auditing. We all keep telling each other to do less routine tests and one might gather from this that, in our practices, we did less routine work ourselves, but this is not my own impression. We are inclined to talk about new approaches and to recommend them, but only infrequently and reluctantly to adopt them. If this is so, it is obviously bad. Unless our theorizing gets converted into action, we are simply wasting our time. I would therefore like now to venture into the difficult field of audit procedure – difficult because, as so much depends on judgment in each case, generalization is always hazardous.

### Audit Procedures in General

It seems to me that the first and most important thing to be said about audit procedures is that each pro-

cedure adopted should be definitely pointed at the auditor's fundamental objective to reach an opinion on the fairness of the statements. This proposition is of course self-evident, but do we pay any consistent attention to it in our practical work? How many of the hours spent in the average audit actually advance the auditor along the way towards forming his opinion on the statements?

I have stressed the difference between auditing and other services, and I think this is a matter of great practical significance even although in practice other work inevitably does get mixed in with the auditing process. Surely there is not much to be said for an auditor who muddles about among the accounting records with a vague notion of being useful. He cannot possibly work efficiently unless he knows when he is auditing and when he is doing work beyond the audit sphere.

Here we encounter a problem which is generally glossed over in auditing text-books. In these there is a tendency to talk of the "auditor" as though he were, in the normal case, an individual. As you know, in practice, the "auditor" is normally a team composed of highly experienced people at the top and relatively raw juniors at the bottom. There are the inevitable problems of communication between members of the team. Some of the things done during an audit are designed to provide means of directing and supervising the more junior members.

**Routine Tests**

It would only be in extraordinary circumstances today that anyone did a completely detailed audit. The principle has been well accepted that routine transactions need simply be tested. It is quite common for auditors to tell one another that we tend to overdo routine tests. But if routine tests are eliminated, there remains the problem of what should be substituted for them. After all, it is still essential for an auditor to satisfy himself that the recording of transactions has been done in a satisfactory manner, with little opportunity for errors, either unintentional or fraudulent. The performance of an examination is of course an essential part of every audit and the words "to audit" and "to examine" are, to all intents, synonymous. It is no part of the auditor's duty to jump to an opinion before he has done any work.

While it is difficult to generalize, most auditors would agree that any reduction of routine tests should be counterbalanced by the use of more analytical work. If we are to substitute such analytical work for routine tests, we should give more thought to developing new procedures. Such devices as ratio-analysis have so far been used in a somewhat uninspired way. We break down the sales dollar, and we work out a few pet ratios, but these are only the routine devices of statement presentation. They are not without significance for the auditor, but he must go further and use ratios designed for his own audit purposes. There is such a wide variety of possibly useful ratios that it is hard to recommend particular ones. For illustration, the relation between sales, receivables and cash discounts granted may reveal slow accounts or slackness in allowing discounts or simply an unusual ratio (compared perhaps with other years) which should be explored. Similarly, comparisons between raw, in-process and finished

goods inventories may point to stock beyond requirements with vital implications.

When mentioning analytical work, it is perhaps fair to suspect that in many cases it is done at the wrong part of the audit. Almost nothing can be immediately concluded from any ratio or comparison. The main purposes of such tests must always be to guide the auditor in making inquiries and in seeking explanations. It therefore follows that the earlier in the audit the tests are performed, the more effective they will be. Ideally, if the financial statements are available at the start of an audit, the analysis work should be done immediately and the results used in designing the audit program. Frequently this is not possible, but whenever the tests are done, some time should be left to digest the results and follow up the points which the analysis raises.

While routine tests are probably overdone in most cases, it is hard to imagine the day when we will do without them entirely. The problem of deciding how far to go will thus always be with us. In this difficult problem of how much routine should be done, we are increasingly offered advice by the mathematicians. Scientific sampling procedures have been suggested. My impression is that little in the way of practical improvement in audit programs has resulted but as the mathematical approach is merely a sort of organized common sense, it must provide some hope in this difficult field. To be really useful, we need more than the mere pronouncement of mathematical formulae. They require to be applied and fitted into audit programs by practical auditors with plenty of experience. We all look forward to further cooperation between the academic types who are supposed to understand these Greek letter formulae and those of us who are able to recognize a voucher when we see one.

Finally, one more general comment on routine tests. The auditor has a great variety of documents amongst which he may do his test checking. Some types of documents are more satisfactory as supporting evidence than others. For example, it is easier to point out the unsatisfactory features of duplicate bank deposit slips than of, say, cancelled cheques. The former are more easily altered and also have been through a much more casual scrutiny at the bank. It is only natural that auditors have paid more attention to the more reliable accounting documents, but perhaps this tendency has been overdone, to the detriment of our audit programs. Concentration on a few types of documents inevitably tends to produce stereotyped auditing, and nothing is less likely to produce results than stereotyped tests.

An audit program which concerns itself exclusively with invoices, cancelled cheques, bank statements, duplicate sales slips, general ledger postings and additions is not much of a program. Yet if most of us reviewed our own programs, we would find that practically all of our audit time was used up in tests based on these documents.

There are various other documents available for scrutiny, such as receiving and shipping slips, purchase orders, duplicate deposit slips, customs invoices and so on; and there are invariably records kept for special reasons that are not an integrated

part of the accounting system but which may nevertheless be an accurate record of some transactions which can usefully be tested against the main records. These subsidiary records range all the way from the fairly usual (such as lists of incoming remittances prepared by whoever opens the mail) down to all sorts of odds and ends (such as the draw for the Christmas bowling party, which might provide a useful cross-check on the number of employees).

Another source of supporting information which should not be overlooked is provided by the interim statements, often in great detail, which some companies produce. A review of such statements will help in two ways. First, it provides another cross-check on the accounts and, secondly, it may give the auditor advance warning, during an interim audit, of some developments which may decide him to alter his program for the rest of the year.

There is thus plenty of opportunity for variety in testing and we should promote more searching types of checking rather than spending too much time in a mechanical calling of figures between the main records.

If there is one thing that can safely be said about fraud detection, it is that no audit, no matter how complete or how carefully carried out, will ever uncover anything but the most fatuous of frauds if the embezzler knows in advance exactly what tests the auditor will do. A little forgery here and there can easily tidy up for audit the documents which the auditor is going to call for. On the other hand, the thing which must prevent the dishonest accountant's lot from being a happy one is the utter impossibility of altering all the subsidiary records and lists to keep them consistent with the false story he has written into the main records. Apart from the complexity of keeping so many records in agreement, there are some of the supporting data to which he will not have access.

It is quite impossible for the auditor to look at every scrap of corroborative detail, but some of his time should certainly be spent on subsidiary documents and records.

**Specific Procedures**

Judgment enters in at every stage in the audit process. Each audit is a new problem, and the selection and application of appropriate procedures depend on far more factors than can be enumerated.

No one appears to have had much success yet in formulating statements about audit procedures. It seems to me that auditing text-books have tended to be weakest at this point. The American Institute has probably worked harder on the subject than anyone else, and it is difficult to imagine anyone doing a more competent job than they have. But their general statements, admirable as they are, have tended to be so broad as to be of little use in guiding the auditor's programming, while the practical case studies suffer from the inevitable difficulties that this approach must entail. It is hard to set up on paper a case which simulates the problems actually met in practice, and any guidance obtained from an illustrative situation is subject to the particular circumstances of the illustration.

It has been suggested that I should comment on specific techniques though my comments are sure to sound unintentionally dogmatic.

To begin with, let me confess that I am just a little tired of talking about direct confirmation of receivables and attendance at physical inventory taking. To read our literature or listen to our discussions, one would think that this was all there was to auditing, except perhaps the awkward and tiresome problem of how to dispose of the credit resulting from adjusting an income tax expense in respect to depreciation claimed but not taken on the books. While of course direct confirmation of receivables is good and the auditor should be around when the inventory is being taken, there are difficulties in applying each of these procedures.

Now for a quick run down the balance sheet. All comments only set out my own personal preferences and must not be taken as pronouncements with any more authority than that behind them.

(a) Cash

Cash accounts, sometimes disparaged, are good auditing so long as the surprise element is well guarded. There is not much use counting a $25 fund when the custodian is expecting you (if he is honest, the count is unnecessary; if he is not, it is an insult to him to imply he cannot find the $25 necessary to cover up for your scheduled arrival), and the only thing that can be said for sending your staff roaming around the country making counts on New Year's Eve is that they may spend their time even less profitably if left to their own devices.

(b) Banks

Reconciliations are much more effective if not done at set dates such as month ends. If the client has reasonable internal control, a brief review of one of his reconciliations may be practically as effective as doing one yourself at the same date, and will save time. The so-called "second reconciliation" performed at the date of audit, with the auditor collecting the cancelled cheques and statements directly from the bank, is a useful device but cannot be a complete safeguard against kiting, specially when the statements are issued promptly after the year-end and a relatively short period intervenes between year-end and second reconciliation. Duplicate deposit slips, with all their unsatisfactory features, are still worth testing in some cases (such as where cash receipts are of minor importance and individual remittances can be traced).

(c) Receivables

A thorough review of the accounts must be part of every audit as the auditor must reasonably satisfy himself as to their proper balance sheet value, but a great deal of time is often spent in listing amounts which will not have any possible effect on the ultimate provision for bad debts. In the nature of things, this provision can only be a rough approximation. It is a waste of time to list down any items which will not materially affect judgment in determining the appropriate provision. It will rarely make sense to list small amounts, no matter how old, or current items, no matter how large.

(d) Inventories

We have become so quantity conscious that perhaps we now pay too little attention to pricing.

(e) Prepaid expenses

Often a quite unwarrantable amount of time is devoted to listing tax and insurance prepayments. Un-

less they are of quite unusual amount, such items are probably just as well expensed. If an accrual is set up, it does not seem necessary for the auditor to prepare detailed schedules automatically in every case.

(f) Fixed assets

There is often a tendency to pay special attention to vouchers covering fixed asset additions. It does not seem logical to pay more attention to these than to other expense vouchers or to limit voucher tests to items over a certain fixed amount. There is indeed some merit in examining the largest vouchers, but the limit should be set high enough to leave some time for testing small vouchers.

(g) Payables

In view of their usual importance, payables probably get less of the auditor's time than they should. Direct confirmation is perhaps just as logical as for receivables. Cut-off or closing dates are of great importance and there is much to be said for carrying out the verification of payables at the time of making inventory tests.

(h) Profit and Loss Items

Most of us are still in the habit of thinking first of the balance sheet, even though the income account has now acquired as great, or greater, significance. Many of the items in the income account are verified in the process of auditing assets and liabilities. Tests by means of comparisons and ratios are also useful.

**Internal Control**

Internal control is of course an absolutely basic concern of the auditor. In devising his program, one of the first considerations is the adequacy of the checks which are built into the accounting system. He must find out what internal control features the system is supposed to have and then observe how well the system is actually functioning.

The appraisal of the internal control is a question of judgment which requires skill and experience on the part of the auditor. It is one of the factors he weighs in deciding what sort of procedures to use and how far to press them. Every variety of situation can be encountered from where there is practically no internal control to where it is so complete that the main part of the audit consists of reviewing it and seeing that it functions.

Questionnaires are often used in reviewing the internal control. Sometimes they tend to be time-consuming and it is difficult to find a form which will be useful in many different types of situations, but the matter is so vital to the auditor that some such method of covering his review systematically is necessary.

**The Internal Auditor**

Most large companies now have internal audit departments. There are some things which the outside auditor will insist on doing himself and there are others which he will be quite happy to have done by the internal auditor. Sorting out one type of checking from the other is a question of judgment in the circumstances of each case. It would be hard to draw up a list. The situation is, in fact, very much like that encountered in appraising the internal control. The auditor must review the work of the internal auditor (usually by reading his reports) and take such work into consideration in designing his own program.

**The Year-end Mentality**

Our profession is dominated by a sort of year-end mentality. In the old days, the accounting department of a company tended to sit around until the last day of the year. It would then spring into feverish activity, taking inventory, mailing out accounts, adjusting liabilities, reconciling bank accounts and so on. The auditor tended to follow along the same lines.

As we live in a country of marked seasonal pattern (and probably three-quarters of our clients have December year ends), this results in a very unsatisfactory scramble during the winter months. We have, of course, made some progress and have shifted some audit tests forward from the year-end. This can be done more readily in some cases than in others and is easier to justify when the internal control is good. However, it is safe to say that we can go a great deal further in spreading work over the year. This could produce better audits and could make possible the issuance of prompter financial statements. Inventory taking is an example of a procedure that is often moved forward from the year-end. Receivable confirmation and ageing is another and, indeed, hardly anything the auditor does need be done at the year-end if the proper conditions exist.

**Materiality**

One more subject of overwhelming importance is the question of materiality.

Accounting is of course entirely utilitarian, its sole function being to produce information which is useful. There can be no conceivable merit in a statement unless it is of use to someone, that is to say, unless it leads someone to act differently than he would have acted without it or at least unless it assists someone in reaching a sound decision.

This must always be remembered in auditing. It is a waste of time to refine figures beyond the point at which they have any genuine significance. Yet many auditors still insist on such adjustments as the transfer of credit balances in the receivable ledger to the payable caption, a procedure which is not even too sound in theory and, at any rate, is almost certain not to alter the statements materially.

**Conclusion**

In spite of mounting evidence to the contrary, it is my firm conviction that human beings are here to stay.

Electronic computers are developing rapidly but there has been no suggestion that they are developing such human traits as dipping into the petty cash box or kiting cheques to get funds to spend lavishly in entertaining other machines. It is probable that the testing of the recording of transactions can increasingly be left to machines and the emphasis in auditing will continue to shift to the interpretive side of the job.

It would be dreadful if we were all satisfied with what we are doing and intolerable to think that ten years from now auditing would be exactly what it is today. The precise line of development will depend on changes in our economy and in the business world. In the meantime perhaps we can claim to be behaving as chartered accountants should, groping our way cautiously and sceptically along towards better, more intelligent techniques.

(*Concluded*)

# Registered Retirement Savings Plans

ALAN W. MORETON

SINCE THE passage of Bill 407 through Parliament last April, a good deal of comment and speculation has risen over the provisions of section 79B entitled "Registered Retirement Savings Plan".

As is well known to most practitioners, for ten years or more the Canadian Institute of Chartered Accountants, together with the Canadian Bar Association, worked to obtain legislation which would enable the self-employed to enjoy some measure of tax relief while providing for their old age. The legislation corrects an inequity of long-standing. Previously, only employees of an organization with an approved pension plan were able to set aside part of their earnings in a pension fund and claim this contribution as a deduction from taxable income. As this privilege was not available to persons such as employers and professional people, the rumble of discontent rose from that quarter in direct ratio to the increase in personal taxation rates.

This situation was recognized in the United Kingdom where pension plans for the self-employed have been recently introduced. Generally speaking, the Canadian legislation is similar although one important difference is that older people in Great Britain may make considerably heavier contributions in recognition of the relatively short time they will be in a position to contribute.

Since the provisions of the Canadian scheme are fairly clear and, by now, familiar to most practitioners, it is not proposed to set them out in detail. However, the concomitant regulations have not been published by the Minister. These may be issued under section 79B(2)(d) governing the terms of acceptance of plans for registration, but more probably the Minister will prefer to deal with each application on its merits without codifying the terms for the time being. Section 79B(11) speaks of "prescribing" the amount which will be taxable in the case of benefits received from a plan entered into prior to the end of 1957. This would cover, for instance, amounts received from existing insurance policies which have been registered as savings plans during 1957, and it would seem likely that a formula will be published.

In the meantime there is some uncertainty as to whether or not the legislation is complete and most of the published comment has been qualified to some extent.

**Published Comment**

The general attitude of commentators appears to be one of caution. In all cases the "locked-in" feature of the contributions has been discussed. A registered plan must not provide for a refund of any moneys to the subscriber other than in the form of a life annuity or a refund of premiums in the event of death before the annuity starts. One's interest in the plan cannot be used as security for a loan, nor can the interest be assigned otherwise than by will. If an individual takes action to use or recover his savings during his lifetime (other than in the form of an annuity), the plan automatically becomes "de-registered". Any payments out are then added to income and made subject to a minimum tax of 25%. In other words, it is not possible to withdraw the savings without a severe tax penalty.

As one prominent pension consultant puts it, "It is often desirable and prudent to convert savings to cash. The tax penalty built into this new legislation will be a powerful deterrent to any individual who might otherwise, and quite prudently, convert his savings to cash to take advantage of opportunities which do come along." It might also be added that, apart from taking advantage of opportunities, there may be the necessity of meeting financial emergencies.

In view of the relief granted under the Income Tax Act, which provides for spreading of single payments made out of pension funds to employees over three years, it is difficult to reconcile the heavy taxation of similar payments from registered retirement savings plans.

Furthermore, the only person who may be selected as a joint annuitant is the purchaser's spouse. This provision could inflict hardship where, for example, the purchaser's wife had predeceased him and there is someone else, say a handicapped child, who is his dependent. He would be prevented from providing a life income for him. Time will tell whether the law will be broadened to cover exceptional cases such as this.

There are some interesting tax implications. One writer has pointed out that some of the plans will be invested in whole or in part in equity shares which, in the event that they increase in value, will be subject to a capital gains tax when converted into a taxable annuity. Dividends accumulating in the meanwhile will have lost the advantage of the 20% tax credit and, where applicable, depletion allowance. This may be true and there will no doubt be individual cases where these points will assume material importance. More often, however, the tax savings enjoyed while accumulating the fund during the higher income-earning years will more than offset the tax payments in retirement years (when income is apt to be lower and exemptions higher) even when a moderately substantial capital gain is included in the annuity purchase.

To what extent will these plans be used? At the moment there appears to be much interest in them and if the number of representations urging the passage of the legislation is any criterion, they should be very popular.

**Schemes Offered**

In the meantime, schemes have been announced by trust companies, insurance companies, the Government Annuities Branch, and some in-

vestment houses. The trust companies have offered a choice of a fixed income or an equity plan and in some cases a combination of the two. Under the fixed income plan, contributions will be invested in bonds, debentures, mortgages and other fixed income securities. The chief attractions of this plan lie in the prospects of a good yield and relative security of capital. Under the equity plan, the investment emphasis would be on common shares. The anticipated rate of yield would be somewhat lower but in the event of long-term inflation a capital gain could be reasonably expected. The subscriber can pay his money and take his choice between these two plans.

Life insurance companies and the Government Annuities Branch have a different basic approach. The retirement annuity is guaranteed and regular contributions are provided for at actuarial rates. In some cases, death benefits may be adjoined to the life insurance company contracts, but only the savings portion is deductible for income tax purposes.

### A Group Plan

In addition to these publicly offered plans which are available to everyone, there will be specially designed plans for business and professional associations. The first group professional plan to be announced came from the Canadian Medical Association in September. As it could be a prototype for other group plans, it may be of interest to set out some of its details.

The plan features an insured annuity segment guaranteeing fixed dollar income, administered by a life insurance company, and a common stock investment fund administered by a trust company. Participation in each element of the fund can be varied within certain limits. The minimum annual contribution is $300 of which $100 must be invested in the annuity portion. Subject to these limits, the proportion may be varied from year to year as desired, as may be the gross contributions. The combination of these elements permits a fixed insurance guarantee for a portion of savings and at the same time some hedge in equities against possible long-term inflation.

It is pointed out by the administrators that it might be prudent for younger members to consider the allocation of one-half of future contributions to each investment medium. Older members might scale down the proportion of contribution to common stock plans since trends of common stock values are less predictable on a short-term basis. As some further measure of protection against a short-term depression of common stock values immediately before retirement age, members may elect five years beforehand to transfer the equity portion to the guaranteed portion in 20 quarterly payments.

A chartered bank will act as a collection medium for the plan. Savings accounts will be opened at convenient branches for subscribers into which their deposits can be made. Interest will be allowed at the usual rates and the balances will be cleared quarterly to the trust company which will then transfer the annuity portion to the life insurance company and invest the remainder. It is interesting to note that the "locked-in" phase does not commence until the funds are received by the trust company.

For convenience, contributions will be cleared to the trust company in amounts divisible by ten dollars. The portion transferred to the life insur-

ance company will be immediately converted into annuity contracts while the remainder or equity portion will be translated into units of the fund based on the quarterly valuation of the fund.

The individual subscribers' accounts will be maintained by the insurance company. Annual statements will be provided to each participant showing his contributions for the year and his status in each element of the fund of the plan at the end of the year. These statements will be used as the basis of the tax deduction claim when the participant files his annual tax return.

So much for the mechanics of what may turn out to be a typical group retirement savings plan. How attractive it will be to the individual members of the medical profession remains to be seen.

**Individual Considerations**

In the meantime chartered accountants will no doubt be asked for advice. To sum up, here are some guiding thoughts and questions which might be applied to individual circumstances:

It almost goes without saying that the "locked-in" feature should be thoroughly understood by the prospective participant. Further, in order to demonstrate the principle of the current tax savings and ultimate taxability of the annuity, it is easy to set up a theoretical table based on the client's present circumstances. Such tables appear in most brochures already circulated by trust and insurance companies. Beyond this point one must enter the realm of speculation. Will future earnings be maintained and the plan thus fulfilled? Has the client ample reserves for emergencies? It might be well to compute the tax liability in the event of a forced withdrawal from the scheme owing to an unforeseen financial reverse in say five or ten years time.

In general the legislation should appeal to those self-employed and professional people with settled employment and income in the higher tax brackets. At the same time there will be an opportunity for anyone to supplement a plan which does not already provide for the full limit of exemption. Owing to the restriction on the amount which may be put to one side in any one year, however, it will not entirely solve the problem of the small group of professional entertainers, authors and others who may enjoy spectacular earnings for a short period of time. Younger professional men "on the way up" may debate whether or not it is wise to lock up savings which might otherwise be used for capital as some opportunity arises.

What division, if any, should be made between guaranteed plans and equity plans? Should the younger man favour the equity plan? Is the relative rigidity of the group plan to be preferred to flexibility of an individual plan? For those individualists who like to manage their own affairs there would appear to be some scope in designing highly individual plans within the requirements for registration.

# Technical Training and Study Combined - A New Approach

C. L. MITCHELL

THE COMBINED B.Com - C.A. program is an educational pattern which enables a student with a junior matriculation standing to earn a degree at the University of British Columbia and gain admission to the Institute of Chartered Accountants of British Columbia in a period of slightly over six years. This is two years less than the time required in the past to attain these two objectives.

**Reasons for Program**

In the early development of the more established professions, the responsibility for the training of future members was left to the individual members. As these professions developed and matured, this informal method was supplemented by centralized educational facilities provided by the profession. As the body of knowledge increased, the responsibility for educating future members of the profession was transferred to the social organization created for higher education, namely the university. This latter step was taken not because the professional body failed to provide adequate technical training but because it recognized the need for a broad social and cultural background for its members.

For the same reasons that medicine, law and engineering generally require university graduation as a prerequisite for entrance to the profession, many chartered accountants have felt that a gradual movement in this direction is desirable for them also. The B.Com. - C.A. program is an attempt to develop a closer liaison with universities for this purpose.

An 18-year-old boy on receiving his junior matriculation has several alternatives open to him. The majority of those who have the ability want to continue their education and receive a university degree. However, after 12 years of study at school, the further eight years required to receive both a B.Com. and a C.A. may seem a lifetime. This is the same period required to become a practising M.D., two years more than that required for admission to the Bar, and three years more than that required to become an engineer. In deciding upon these alternatives, time is an important factor. As a means of overcoming this problem the B.Com.-C.A. program was developed to reduce the time to parallel that required for the legal profession, six years.

A profession is no better than the individuals that compose it. To re-

tain the high standards of chartered accountants, we must recruit able students. More superior students should be attracted to the profession through the development of an educational process which allows a student to obtain both a university degree and a professional certificate within a reasonable period of time without reduction in standards.

Some capable students feel they must begin to apply the knowledge gained in the classroom immediately and cannot face the prospect of continuing to university on graduation from high school. For this group the program has particular appeal. The combination of practical experience and university life is integrated in such a way that they are able to appreciate the advantages and derive the greatest benefit from both.

**Details of the Program**

Before presenting the complete picture of the combined program the pattern of each program will be presented separately.

Normally to obtain a Bachelor of Commerce degree from junior matriculation, a student spends five winter sessions in full time attendance at the university, beginning about the middle of September and continuing until the end of April. During this period his studies will be apportioned at about 50% in the field of the general arts, 25% in the general commercial field and 25% in the accounting area. The student studies these sections generally in the sequence in which they have been presented above. During the five years he is required to complete the equivalent of 29 full year courses of three hours of lectures per week.

For the C.A. program, in order to gain admission to the Institute the student may attend one year of university to obtain his senior matriculation, and for the next five years article with a chartered accountant in public practice. During this latter period he undertakes a formal study program and completes examinations during each of the five years – three in accounting and auditing, two in law, one in English and one in economics. The formal study program is offered during November to May, and the examinations are held in September or October.

In framing the B.Com. - C.A. program both the university and the Institute have recognized the educational status of the other party's program. The university allows the student credit for six of the required university courses in the accounting area, and the Institute does not require the student to undertake the English and economics courses and examinations. A student entering the combined program would undertake the following studies and examinations following completion of first year university (which is common to the two separate programs):

***First year***

*May 15 – Aug 15 – at university*

English literature and composition
Principles of economics
Mathematical theory of investments

*Aug 15 – May 15 – in articles –*

(1st year of Institute course)

| | |
|---|---|
| Accounting | – 17 lessons |
| Auditing | – 7 lessons |
| Law | – 4 lectures |
| Economics | – 1 lecture |

*May 15 – Aug 15 – at university*

Economic geography
Fundamentals of business
Money and banking

***Second year***

*Aug 15 – May 15 – in articles*
(2nd year of Institute course)

| | | |
|---|---|---|
| Accounting | – | 11 lessons |
| Auditing | – | 5 lessons |
| Law | – | 4 lessons |

*May 15 – Aug 15 – at university*
Statistics
Production
Marketing

***Third Year***

*Aug 15 – May 15 – in articles*
(3rd year of Institute course)

| | | |
|---|---|---|
| Accounting | – | 13 lessons |
| Auditing | – | 10 lessons |

*May 15 – Aug 15 – at university*
Cost accounting
Business finance
Constitutional government

***Fourth Year***

*Aug 15 – May 15 – in articles*
(4th year of Institute course)

| | | |
|---|---|---|
| Accounting | – | 10 lessons |
| Cost accounting | – | 7 lessons |
| Business finance | – | 4 lessons |
| Auditing | – | 4 lessons |
| Income tax | – | 6 lessons |
| Law | – | 4 lessons |

*May 15 – Aug 15 – at university*
Government finance*
Controls
Insurance

***Fifth year***

*Aug 15 – May 15 – in articles*
(5th year of Institute course)

| | | |
|---|---|---|
| Accounting | – | 18 lessons |
| Auditing | – | 7 lessons |
| Taxation | – | 1 lesson |

*May 15 – Aug 15 – at university*
Graduating essay
Policy and administration
Business systems
Business and government*

*These courses are selections from those that the students may study.

Before the first group of students began the program, a committee of the B.C. Institute studied the question of salaries for students who would be working for their principals for eight months only in each year, but who would have no other source of earnings to maintain themselves for the whole year and to pay their university fees. A scale of pay which seemed to offer a reasonable solution to both sides of the problem was recommended to practising members, and it is believed that most principals employing students under the combined program are following the broad lines of the recommendations.

In the long run there may be relatively little difference for the principal between the total costs of employing either a student in the program or a student with a university degree, or for that matter a five-year senior matriculation student. Any difference that does arise may be partially or wholly counterbalanced by the fact that the student is available during the "busy" season, and not idle, as may happen in some offices, for desultory periods during the summer.

**Pros and Cons**

From the standpoint of a student the combined B.Com. - C.A. program has the following advantages:

1. He saves two years over the time required to gain both qualifications.
2. There is a combination of practical experience and university education. As a result, both processes are more meaningful and rewarding.

On the other hand a student must accept certain disadvantages:

1. His decision for a career in accountancy is made four years earlier, while he is still unfamiliar with other opportunities.

2. The extra-curricular activities, an important part of university life, are curtailed.
3. He will not be given the same opportunity of mingling with students of other disciplines at the university.

Today, a university education is not necessarily dependent on parental financial support. As a result there is little difference between these programs from that point of view, since in both cases a student may earn enough to pay for the cost of his education and maintain himself at a moderate standard of living.

From the standpoint of the chartered accountant in public practice, a student enrolled in the combined program offers his employer the following advantages:

1. He is available during the peak work period (January to April).
2. During a five year period the student has an opportunity to become fully familiar with the routines of the particular office.
3. A three month change each year will leave the student refreshed for the balance of the year.

On the other hand, a student in the combined program is absent for a three month period and the clients for whom he may be responsible must be handled by another staff member. Obviously, in order to keep his office running in the summer, a practising member must set limits to the proportion of his student staff that he can engage under the combined program.

**Progress to Date**

Owing to the experimental nature of the program the enrolment of students has proceeded rather slowly. In the first three years, 17 students enrolled, and in the past year, 12 students were added, giving a total of 29 students at September 1, 1957, serving articles with 14 firms of chartered accountants. The academic record of the students is well above that of the average winter session university student. They have written 162 university examinations and results show only three failures. These figures confirm that the capacity of these students is above normal and, more important, the nature of the program has motivated them to develop this capacity.

Reports so far received from principals indicate that they are satisfied with the type of student who has volunteered for the combined course and pleased with the training and broad outlook they are acquiring from the university half of the program.

**Conclusion**

The B.Com. - C.A. program in British Columbia no longer is an experiment. It has taken its place along with the more traditional educational programs as another means of entering the profession of accountancy. The future growth in the number of students participating now depends to a marked degree upon the encouragement given to the program by members of the profession.

*Edited by* LAWRENCE G. MACPHERSON, F.C.A.

# *Accounting Research*

*Director of Research, C.I.C.A.*

## Notes to Financial Statements

*Gertrude Mulcahy, C.A.*

In recent years, the use of notes to financial statements has become common practice. Approximately 75% of the 300 Canadian companies, whose annual reports for 1955 and 1956 were analyzed by the C.I.C.A. research staff, followed this method of disclosing information relating to the financial statements. The 1956 edition of "Accounting Trends and Techniques", based on a survey of the annual reports of 600 American industrial and commercial corporations, showed that 90% of the survey companies adopted this practice in their reports for 1955.

A note to financial statements has been defined as "a disclosure by management of pertinent information which it is not feasible or customary to incorporate in the statements themselves".[1] Basically, notes are only a medium of disclosure, by which information necessary for the proper interpretation of financial statements is provided. In Bulletin No. 14, the Committee on Accounting and Auditing Research of the Canadian Institute of Chartered Accountants stated that notes appended to financial statements "for the purpose of clarification or further disclosure are considered to have the same significance as if the explanations were placed against the items concerned".

[1] C. L. Bulloch, *The Journal of Accountancy,* July 1956.

### Reference to Notes

Since every note to the financial statements is an integral part of them, the Committee suggested that "a reference thereto should appear on the financial statements" and, specifically, that "the wording of items concerned contains references to the notes, as such incorporation by reference emphasizes the fact that the notes are part of the financial statements" (Bulletin No. 14).

A review of the practices followed by the 227 Canadian survey companies who included notes in their reports for 1956 shows that 102 companies made direct reference to the notes in the descriptions of the related items in the statements, as recommended by the committee; 18 followed the same procedure but also included a general reference, such as "See accompanying notes to financial statements" and "The accompanying explanatory notes are an integral part of these financial statements"; 11 included only a general reference in the statements without any specific annotations ; 11 incorporated notes within the statements themselves, setting them out immediately below or in the descriptions of the items to which they referred; and 85 included notes either at the bottom of the financial statements or on a separate page but made no reference to the notes in the statements themselves.

Of the 29 general references, 17 were worded so as to emphasize the

fact that the notes were an integral part of the financial statements. Wordings, such as "The accompanying notes are an integral part of this statement and should be read in conjunction therewith", "The accompanying explanatory notes are an integral part of these financial statements", and "The attached notes to the financial statements should be read with the statements", were used. In the remaining 12 cases, the reference was limited to such expressions as "See notes to financial statements", "See accompanying notes to financial statements", and "Refer to financial notes on page . . . .".

**Types of Information**

Information disclosed by way of notes can be classified into three broad categories: financial data not included in the financial statements, accounting information and explanations essential to the proper understanding of the statements, and events subsequent to the date of the statements, which may have a material effect on the future prospects of the company.

Financial Data

The presentation of financial data in notes rather than in the statements themselves frequently represents an endeavour to simplify the structure of the statements and to make them more understandable. While it is generally recognized that as much of the essential details as possible should be included in the statements rather than the notes, the inclusion of all the data relating to the various balances sometimes makes the statements far too lengthy and cumbersome and is apt to detract from the essential facts. Under such circumstances, notes can be used to advantage to eliminate unusually lengthy details from the financial statements. Among Canadian companies, notes for this purpose have been used most frequently in connection with long-term indebtedness and capital stock outstanding as at the balance sheet date.

Notes are also used fairly extensively as a means of providing specific financial details required by regulatory statutes and bodies, where such items have not been distinguished within the financial statements. Among the Canadian survey companies, notes for this specific purpose usually applied to the statement of profit and loss and set out such items as "Directors' fees", "Current provision for depreciation", "Legal fees", "Amortization of intangibles", etc.

Notes to financial statements have become generally accepted as the most suitable means of providing financial data which, by convention, are not included in the statements. Arrears of dividends on cumulative preference shares and outstanding options for purchase or conversion of capital stock are examples of details which, because of their nature, are not usually incorporated in the financial statements but which should be disclosed in order to provide adequate presentation.

Contingent liabilities are frequently shown by way of notes rather than being disclosed by figures in the balance sheet. These two methods of presentation reflect a basic difference in the attitude on the part of management with respect to these obligations.

Disclosure by way of notes indicates that management acknowledges the possibility that certain legal obligations might arise out of present

circumstances but is not prepared to incorporate an estimate of such liabilities in the company's records or statements. This position is based upon the theory that the inclusion of such estimates might be interpreted as implying that the management admits to the obligation and that the amount of such estimates might be used as a measure of the claim against the company.

The inclusion of contingency liabilities in the financial statements themselves indicates that management acknowledges the possible existence of claims against the company and has made a specific appropriation or estimate to take care of such liabilities if and when they become a legal obligation.

In the group of Canadian companies showing notes to the financial statements in their reports for 1955 and 1956, approximately 75% included notes which provided financial data not included in the statements. The following list sets out, in order of occurrence, the actual details which appeared to any extent in these notes: current expense for directors' fees and executive remuneration, contingent liabilities, details of long-term indebtedness, current charge for depreciation, current expense for legal fees, changes in capital stock during the year, details of the classes of capital stock, share options, details of fixed assets, details of inventories, and arrears of dividends on cumulative preference shares.

**Accounting Information and Explanations**

Notes to financial statements are frequently employed as the most suitable means of providing accounting information and explanations essential to the proper interpretation of the significance of the financial data included in the financial statements.

Interpretive notes generally relate to accounting principles and practices applied in the preparation of the statements. Among the Canadian survey companies, explanations of the basis of the current charge for income taxes and of the deferred income tax credit shown in the balance sheet made up the bulk of the notes having to do with accounting principles. Explanations of the bases of the valuation of assets, where the bases were not self-evident in the financial statements, were also often set out in this way. Notes were used fairly extensively to explain such matters as basis of consolidation of subsidiary companies, basis of conversion of amounts from foreign currencies to the currency in which the financial statements are expressed, the company's policy for depreciating fixed assets, and the accounting treatment of the profit and loss of non-consolidated subsidiaries.

The minimum standards of disclosure presented by the committee in Bulletin No. 14 state that, unless otherwise apparent in the financial statements, disclosure should be made, by way of note, of: "Particulars of any change in accounting principle or practice or in the method of applying any principle, affecting the comparability of the current statements and the previous year's statements". Of the notes included by the Canadian survey companies with respect to accounting principles and practices, 14% indicated that a change had been made in the current year.

Adequate presentation calls for the disclosure of "any contractual obligations which may require abnormal expenditures in relation to the com-

pany's normal requirements or financial position or which are likely to involve losses not provided for in the accounts" (Bulletin No. 14). Ordinarily, such commitments cannot readily be reported in the body of the statements and it has become generally accepted practice to disclose their existence by a note. Contracts for the purchase or construction of fixed assets and long-term leases were the two main types of commitments included in the notes appended to the financial statements of the Canadian survey companies. Restrictions on the availability of accumulated earnings for dividend purposes were set out in a number of cases.

In the group of Canadian companies showing notes to the financial statements, approximately 70% included information and explanations required for interpretive purposes. Disclosure relating to the application of accounting principles appeared most frequently with contractual obligations and changes in accounting practices ranking second and third.

### Subsequent Events

Notes to the financial statements are used as the proper means of disclosing events subsequent to date of the statements which do not have any direct effect on the historical facts as reported in the statements but which may have a material effect on the company's future operations and financial conditions. Disclosure of such subsequent events is required on the grounds that they are essential to the usefulness of the financial statements in interpreting the future potentialities of the company.

A very small proportion of the notes included by the Canadian survey companies fell into this category. However, such subsequent events as issue of debentures, sale of assets, purchase of shares of another company, and change in capital stock, were disclosed.

## Notes and Auditor's Comments

It has been suggested that there is a certain similarity between footnotes to financial statements and notes and explanations included in the auditor's report, as both are means by which information not presented in the financial statements is disclosed. However, this similarity is entirely superficial. As pointed out earlier in this discussion, the notes are an integral part of the financial statements and merely represent what management considers to be the most satisfactory means of reporting necessary information. Notes constitute disclosure made by management. In contrast, explanations and information included in the auditor's report are not part of the financial statements but rather disclosure made by the auditor of essential information which has not been provided by management.

Notes to the financial statements do not necessarily imply a deficiency in the presentation of the financial statements themselves, since they frequently relate to information which cannot satisfactorily be included in the statement. The auditor's comments and explanations, on the other hand, are often a direct indication that the disclosure provided by management is deficient.

In order to avoid the possibility of the auditor's comments, providing factual explanation or information, being interpreted as qualifications of his opinion, the auditor should, in every case, urge management to incorporate this information either in the statements or in notes appended thereto.

# Some Views on Bulletin No. 14

*Kingston, Ont., Sept. 23, 1957*

**Bulletin No. 14**

Sir: I notice that the recent C.I.C.A. Bulletin No. 14 (superseding Bulletin No. 1) includes the following opinion in its discussion of accounts and notes receivable: "Since it is to be assumed that adequate allowance for doubtful accounts has been made if no statement is made to the contrary, it is not considered necessary to refer to such an allowance." Bulletin No. 1 had said: "If the reserve for doubtful accounts is not shown separately it should be indicated in parenthesis or otherwise that such a reserve has been deducted."

There will probably be general agreement that Bulletin No. 14 takes a step forward in a number of respects in its statement of standards of disclosures in financial statements; in this one respect, however, I submit that it has taken a step backwards.

There is a good argument often for the view that showing the *amount* of the allowance for doubtful accounts serves no useful purpose, but the treatment by which the allowance was deducted from the face value of the accounts receivable, or the simple description "Accounts receivable less allowance for doubtful accounts" at least indicated the existence of such an allowance. In turn it implied that the net figure presented for accounts receivable was their estimated collectible amount.

I believe that if the significance and limitations of the balance sheet are to be understood by its readers, it is important that the balance sheet should disclose the basis of valuation of every item the dollar amount of which is a matter of opinion. Since the basis of valuation is different from one item to another (cost for investments, lower of cost and market for inventories, cost less recorded depreciation for fixed assets), is it not assuming a good deal to say that the reader of a balance sheet, without guidance, will suppose accounts receivable to be shown "at estimated collectible amount"?

One can detect, I think, an underlying assumption on the part of the committee that allowances for doubtful accounts are not important nowadays. But it is conceivable (though we hope not) that they might sometime become important for the economy as a whole, or they may be important for a particular company with respect to a large individual customer. If the amount of the allowance for doubtful accounts which is regarded as adequate is substantial in relation to the total accounts receivable, is this not a significant financial fact requiring disclosure somewhere on the balance sheet?

I have also been wondering about the position of an auditor who has to express an opinion on the fairness of the financial picture reflected by the balance sheet. The bulletin is evidently assuming that the auditor would qualify his report if a client insisted on presenting accounts receivable at face value when there was clearly a need for an allowance of significant amount; but there is a sense (though contrary to the bulletin) in which the client could argue that what he was showing was true when he presented accounts receivable, with no qualifying description, at a figure which represented the total amounts currently owing by customers.

J. E. Smyth, F.C.A.
*Associate Professor,*
*Queen's University*

**A Reply to Professor Smyth**

Sir: Professor Smyth's letter deals with an important item in Bulletin No. 14 and his points are well taken. The question of reference, on the balance sheet, to the allowance for doubtful accounts received considerable attention when the Research Committee was preparing the bulletin. The committee's conclusion was that it is a well accepted principle that an unqualified re-

port could not be given in any case where adequate allowance had not been made for doubtful accounts. It seems reasonable to assume that this is understood by all of those who understand balance sheet presentation. Accordingly it was thought that reference to an allowance was unnecessary where adequate allowance had been made, and that without any indication of the amount of the allowance, reference to it provided no additional insight.

Professor Smyth's view is that the balance sheet should disclose the basis of valuation for every amount that is a matter of opinion.

It is fair to suggest that the basis of valuation is not really a matter of opinion since the bulletin makes it clear that the accepted valuation of accounts receivable is that which makes allowance for doubtful accounts. The accepted definition of current assets leads to the conclusion that the estimated uncollectible portion of accounts receivable cannot be included as a current asset. Adherence of auditors to the precepts of Bulletin No. 14 will avoid the argument that the presentation of amounts currently owing by customers, without allowance where needed, is proper.

It is noteworthy that at the 1957 annual conference of the C.I.C.A. in Saskatoon, Mr. M. A. Bradshaw, discussing the viewpoint of life insurance companies, stated that they expected that the auditor, in issuing unqualified reports, has met the standards as set out in the C.I.C.A. bulletins. No doubt this view is a general one.

L. G. MACPHERSON, F.C.A.
*C.I.C.A. Research Director*

*Edited by* GEOFFREY H. WARD, C.A.

# *Practitioners Forum*

### Emergency Assistance for Disabled Practitioners

At the the 1956 annual meeting of the American Institute of Certified Public Accountants, held in Seattle, there was a discussion of problems arising out of changes in partnerships, including mergers, admission and retirement of partners. Of particular interest to sole practitioners was the paper "Practitioners Emergency Assistance" by B. B. Isaacson, C.P.A. Some quotations and excerpts from his talk follow:

**An Unfortunate Experience**

Jim Hunt was a C.P.A. who practised for 25 years on his own account and built up a nice little practice. He had two juniors working with him and a girl in the office. He practised in a town where there were two other C.P.A.'s and several public accountants.

When Jim Hunt died of a heart attack, his widow did not know where to turn. After funeral arrangements had been made and the excitement of the tragedy died down, the widow wondered what she should do. What arrangements had her husband made for such an event? Had he talked to any other C.P.A. about his practice?

Was his practice promised to his juniors, his competitors, his friend in a nearby town? Why hadn't he discussed anything with her?

She had no one to talk with except Jim Hunt's personal attorney. After consultation with him, they found that it would not be feasible for the two juniors to take over the practice because they were not qualified to handle the type of work that was done personally by Jim Hunt. Mrs. Hunt, after many weeks of delay finally made arrangements with another accountant to take over the practice and pay her 40% of the gross fees that were collected during the coming year from her husband's accounts.

Meanwhile some of the clients, because no one contacted them or told them anything, made arrangements with other firms, some local and some from nearby towns. The practice started to dissipate. Much of the value of the business that Jim Hunt had taken 25 years to build up seemed to go down the drain because of lack of planning. No provision had been made in the event of his sudden disablement or death.

**How Can This Be Avoided?**

If proper arrangements are made in advance with another firm of accountants, the clients will receive the attention they require without interruption. The widow or estate will receive 100% (or other agreed percentage) of the gross fees that her husband would have earned in one year, and a fair price for the furniture and equipment. In the event of prolonged illness the practice would be taken care of and held together.

The procedure should provide for the notification of clients, by tele-

phone and letter, as to the arrangements made to service their accounts and the clients agreement obtained. Also the working papers and any other necessary information regarding the client should be turned over to the new accountant.

**The Problem**

During the post-war years many more practitioners went into rural areas than ever before, and many who remained in the urban areas found that age had been creeping up on them. As a man became older he began to wonder how his practice would be disposed of in the event of his death; or, in the event of a severe and prolonged illness, how his clients would be looked after. What would become of his family with his income considerably reduced? Those who went into rural areas began to wonder the same thing. What would happen if they became ill for a long period of time or if they died with no arrangements whatsoever for the disposition of their practice?

The American Institute of Certified Public Accountants' Advisory Committee of Local Practitioners realized that sole practitioners needed assistance. From all over the country, members of this committee began to sense that within their own areas there was a need for looking after the practice of the sick practitioner and the estates of those who died while in practice. Somehow along the way, the practitioner would take care of everyone else's problem but his own. Many made no provision whatsoever for the disposition of their practices or for any working arrangements with other practitioners in the event of illness or death. We in the accounting profession are logical individuals. We have experience in business and know that plans must be laid long in advance if they are to be carried out in an orderly and proper fashion.

**The Solution**

Several different plans have been evolved in various states. One of the best, developed by a committee of local practitioners in Bridgeport, Connecticut, works as follows:

*In case of illness—*

Upon notification of the serious illness of the accountant the emergency program is put into effect. The steps are as follows:

1. A member of the committee notifies the clients of the situation on the disabled accountant's letterhead.
2. Working papers are distributed to the other accountants who have agreed to the plan and work begins.
3. The assisting accountant bills on behalf of the disabled accountant. When the fees are collected they are deposited to the disabled accountant's bank.
4. When the disabled accountant gets back to work, everything is returned to him and settlement with the assisting practitioner is made. In case this assistance extends over a long period of time interim payments can be made on account.

*In case of death—*

The widow or estate is contacted and a conference arranged in the presence of her attorney. In each case arrangements will have been made with a successor accountant who will have agreed to pay a percentage of the fees received, for a certain number of years, from the clients

turned over. The successor will arrange for the disposal of the office furniture and equipment on behalf of the widow or the estate. Clients will be notified by telephone. This will be followed by a letter, on the deceased practitioner's stationery, from his widow or estate. Upon receipt of the client's consent the working papers will be distributed to the successor. At this time the new auditor will personally call on each client and work will commence. The successor will arrange to complete the outstanding billing, collect outstanding accounts and other matters on behalf of the estate.

**Benefits to the Profession**

The accounting profession can be helped considerably by the adoption of such emergency plans. The reason is quite simple. The public, when it learns that the accounting profession has provided for emergency assistance to a practitioner when he becomes ill, will feel quite secure in the knowledge that their affairs will be taken care of properly even in the event of illness of a prolonged nature. The practitioner's family will feel more secure when it learns that in the event of severe illness or death, the practice which had been built up over the years can be continued for some period of time when the proprietor is ill and can be satisfactorily disposed of upon his death. Accountants will not hesitate to go into more rural areas or remain as a sole practitioner.

Many partnerships and mergers have arisen because of this very problem. Some people created partnerships they did not want or that they were not too happy to make, to provide security for their family.

Summing up the situation is this quotation from Dixon Fagerberg's column "The Practitioners Forum" in *The Journal of Accountancy,* October 1955.

**"The Benefits of Planned Transfers of Practices**

"The American Institute of [Certified Public] Accountants advisory committee of local practitioners has pioneered in developing an orderly plan for transferring the practices of deceased or disabled practitioners.

"The committee's work continues, heartened by success in the first actual experiment and by the accelerating interest being displayed by practitioners in all localities as they learn about the projected developments.

"Now, to make sure that the objectives are fully understood, and to boost the committee in its remaining work, let us briefly trace through the expected benefits to the three important parties affected.

*"The deceased practitioner's estate—*

"There is many a practitioner today who, until recently, entertained little hope, or only random hope, for salvaging anything substantial from his practice when the time arrived that he could no longer carry it on. The dismal thought was that the clients would have to transplant themselves to other hands as best they could, while his estate's main efforts would be to try to collect the accounts receivable. To such a practitioner, the new possibility of being able to realize as much as one year's additional gross fees comes as a complete (and completely pleasant) surprise. Without question, the greatest and most direct benefits of a preplanned transfer of a practice go to the family of the deceased or disabled practitioner.

*"The transferred client –*

"To put it very mildly, the transferring of his account to another office is likely to be an annoying, unpleasant, and inconvenient task for the average client. The onus is largely removed, however, when he can rest assured that such transfer can and will be made smoothly to another practitioner of his own choice through the good offices of a special committee of the nearest chapter of the state society. The fact that this machinery is being provided for his service and benefit, as well as for the estate involved, cannot fail to impress him anew with the high public aims and sincere service standards of the public accounting profession.

*"The practitioner who purchases the account*

"The office taking over the new account benefits because the transfer is effected in a timely, considerate, dignified, and mutually confident manner. His pecuniary benefits from the arrangement are, it is true, deferred to the future. Nevertheless, he has the satisfaction of knowing that he is helping his erstwhile colleague and at the same time cementing the goodwill between his profession and his community. Topping all this, he can note with satisfaction that he is forging one more link in a permanent chain that some day may inure to the substantial direct benefit of his own family.

**"Action Indicated**

"If you support these objectives, there are at least two steps you can take now to put this far-reaching project over the hump. First, you can urge that a 'disaster' committee be set up in your area. Secondly, you can begin to get your own practice in transferable condition by assembling the necessary data concerning your clientele, as outlined so clearly at page 22, Chapter 2, of the *CPA Handbook*. This data includes:

1. Date of acquisition of client.
2. Type of service performed.
3. Dates and places of performing services.
4. Fiscal year.
5. Time and fees last three years.
6. Time and fees this year.
7. Time and fees estimated for next year.
8. Dates of billings and payments.
9. Financial status of clients (in general terms.)"

**In Canada**

We in Canada can benefit from the advice given above as it is equally applicable to us. In order to put such a plan into effect those interested could ask their provincial Institute to form a committee to consider the problem and decide on a plan to meet the needs of each locality. A more personal solution would be to approach another firm and make a private arrangement with it.

*The editor of Practitioners Forum cordially invites correspondence from his readers on any matter of interest to the practitioner.*

BY A. WILLARD HAMILTON, C.A.

# *Tax Review*

SOME OF THE "NOTHINGS"

Deductible expenditures under the Canadian Income Tax Act fall into two classes—

(a) Those items which are of a capital nature and subject to annual write-off under the capital cost allowance regulations, and
(b) Expenses of a current nature which are deductible in the year of expenditure.

There is another class of expenditure, however, which is recognized under sound accounting practices, the items of which, nonetheless, are not recognized for tax purposes and consequently are of no tax benefit to taxpayers generally. Many professional people refer, familiarly and colloquially, to an item which falls in this class as a "nothing".

Most of these "nothings" stem from decisions of the Courts and usually from an adverse decision (to the taxpayer!) under the provisions of paragraphs (a) and (b) of section 12(1) of the Income Tax Act.

These are the well-known and oft-discussed paragraphs, which establish the general rules of deductibility, viz:

"(a) That an outlay or expense be for the purpose of gaining or producing income from property or a business; and
(b) That no deduction shall be made in respect of an outlay, loss or replacement of capital, a payment on account of capital . . . ." (depreciation, obsolescence and depletion excepted).

It is not the purpose here to analyze at length the meaning of paragraphs (a) and (b) of section 12(1), as a discussion of the terminology can readily be found elsewhere, but rather to provide a recapitulation of several types of expenditures which have been determined to be non-deductible. It will be recognized that in many cases it would not be possible for the taxpayer to avoid making the expenditure simply because it is unacceptable for tax purposes. In other instances, however, it may well be that the nature of the expenditure can be changed to the extent necessary to qualify it for deduction, or, possibly, to avoid the outlay entirely.

While an effort has been made to provide some order for the review of the "nothings" recorded below, such disallowances cover a very wide field and it has been necessary to include several items in the "miscellaneous" category.

### Legal Expenses

(a) *To fight eviction notice*

A taxpayer spent approximately $9,000 in legal expenses and fees over a period of three years in successfully fighting an eviction notice ordering him to vacate his leased business premises, and claimed deduction of that amount as a reasonable business expense. Mr. Fabio Monet, chairman of the Income Tax Appeal Board, quoted the dictum, "Expenditure, to be deductible, must be directly related to the earning of

the income", and gave the opinion that the sum expended was not laid out for the purpose of gaining or producing income of the taxpayer within the meaning of section 12(1)(a) of the Act.

(b) *To fight competition*

A corporate taxpayer operating a radio station spent approximately $1,700 for legal expenses in opposing the application of another company which wished to operate a radio station in the same city. The expenditure was deducted on the grounds that its advertising revenue would have suffered from competition. The Income Tax Appeal Board found "that the legal expenses . . . . were, not to produce the income derived from its business, but rather to prevent the coming of a competitor into the territory where until then it had operated alone but over which it had no exclusive right".

(c) *To contest income tax assessments*

The appellant incurred legal expenses of $7,966 in contesting assessments to income and excess profits taxes and provincial income taxes, as a result of which substantial savings in taxes were effected. The outlay was found not to be an expenditure for the purpose of earning the income, as obviously the income before tax was not altered in the slightest degree as a result of the representations made.

Reference might also be made to the *Anglo-Canadian Oil Company Limited* case decided in January 1947 by the Exchequer Court of Canada. In that case, fees and expenses of the company's legal counsel and auditors, for services in obtaining rulings from the Income Tax Division on allowances to be made with respect to the drilling of oil wells, were disallowed.

(d) *To obtain lower import duty*

A solicitor made representation to the Tariff authorities, as a result of which lower import duties were made applicable to a certain product imported by his client. His account for $11,000 was deducted as representing an outlay for the purpose of earning income. The Income Tax Appeal Board dismissed the appeal against the disallowance of the expenditure on the grounds that—

(a) the more advantageous tariff treatment resulted in a permanent and lasting advantage, and
(b) outlays or expenses directed at saving expenses rather than to earn income are not deductible under paragraph (a) of section 12(1).

(e) *For defence of franchise*

The company's right to exercise a perpetual franchise to supply natural gas to certain sections of the City of Hamilton, Ontario, was challenged by a competitor which sought to obtain an injunction restraining the company from carrying on business. The injunction was successfully fought, in the course of which legal expenses of $48,560 were incurred. The claim for deduction of this expenditure was eventually decided by the Supreme Court of Canada in 1940, which held that the expenditure was not wholly, exclusively and necessarily laid out for the purpose of earning the income (section 6(a) of the Income War Tax Act) but was on account of capital, being made once and for all for the enduring benefit of the trade.

**Contracts and Rights**

(a) *Newsprint contract*

The Southam Company Limited, publishers, paid $200,000 to The Edmonton Bulletin Limited to acquire a contract which the latter had with Powell River Sales Company for the delivery of newsprint for a period of years ending with 1953. Southam deducted $64,488 in ascertaining its taxable income for 1951, based on the number of tons which the newsprint received in that year bore to the total tonnage received under the contract. The Income Tax Division contended that the amounts were spent to secure benefits in the nature of a lasting advantage, were not expended for the purpose of gaining income, and that it was not part of the company's business to deal in newsprint contracts. It also opposed the company's claim, alternatively, that the newsprint contract was a tangible asset within the meaning of Class 8 of the capital cost allowance regulations. The Income Tax Appeal Board concluded that the price paid for the contract was merely for the right to acquire newsprint and could not be considered as part payment of the newsprint itself, and that the $200,000 not being a tangible asset did not qualify for amortization under the Income Tax Regulations.

(b) *Permit to export natural gas from the United States*

The Consumers Gas Company of Toronto, in order to offset a decline in business due to increased rates, engaged a firm of consulting engineers to survey its position. Later, a member of the firm gave evidence before the U.S. Federal Power Commission in order that Consumers might secure a permit for the export of natural gas from the United States.

It was held by the Income Tax Appeal Board that the obtaining of the permit was the acquisition of a right which was in fact a capital asset and not deductible.

(c) *Transfer fees for liquor licence*

The taxpayer, having made an agreement to buy certain hotel premises, completed another arrangement to pay the vendor fees totalling $5,775 for the transfer of the Ontario Liquor Authority Control licence. Inasmuch as the vendor was the person responsible for the payment of the transfer fee, it was held that this fact in itself took the amount out of the category of an expense necessary to earn the appellant's income.

(d) *Transfer fee for public commercial vehicle licences*

A manufacturer of trucking equipment entered into an agreement to pay the sum of $1,500 for the transfer, from a truck operator, of his public commercial vehicle licences, including franchises, by means of which the business operated in three provinces. The payment of $1,500 was made to secure a benefit of an enduring nature and it was held that the initial cost of having the licences transferred was not an expense incurred for the purpose of producing income.

(e) *Patent application*

A taxpayer purchased all the rights, title and interest in a patent *application* for the sum of $85,000, payable in annual instalments of not less than $5,000 each. Deductions of $5,000, as capital cost allowances, were made annually in 1949, 1950 and 1951, which the Minister disallowed as not constituting capital cost allowances as defined by the

Regulations. The taxpayer claimed that if the amounts were not capital cost allowances they should qualify as outlays made for the purpose of gaining income. The Court held that only a right had been acquired and not a tangible capital asset which could be depreciated under Class 8 of the Regulations.

(f) *Franchise payment*

In order to curtail operating losses for railway passenger service in the Fraser Valley by the substitution of a bus service, the B.C. Electric Railway Company agreed to contribute a total amount of $220,000 to the municipalities concerned, toward the cost of the improvement of local roads. It was decided to amortize the total by deducting $22,000 annually over a ten-year period. Notwithstanding the evidence that this procedure would be acceptable from an accounting viewpoint, the Exchequer Court held that the payment was not laid out for the purpose of earning income; it was for the purpose of reducing annual deficits; it was not of a recurring nature; it was not an usual or ordinary expense of the trade but it was a payment of a capital nature.

(g) *Right to drill for oil*

The Cherokee Drilling Company Limited claimed a deduction of the sum of $6,000 as an expense of doing business which represented the cost of rights to drill for oil at various locations. The Minister disallowed the expense on the ground that it represented a capital outlay. The ITAB noted that the purchase of the rights did not add one iota to the income of the appellant but on the contrary turned out to be an unfortunate expense. The payment was regarded as a non-deductible capital outlay.

(h) *Bar admission fees*

Mr. G. K. Daley, a member of the Bar of Nova Scotia, paid $1,500 to the Law Society of Upper Canada as an admission fee when called to the Ontario Bar. The expenditure was held to be a payment once and for all which created a lasting advantage.

(i) *Acquisition of sugar quota*

In 1947 Seven-Up of Montreal Limited, requiring substantial stocks of sugar, purchased the assets of another bottling company including stocks of sugar and the sugar ration quota — sugar still being under control. The Sugar Administration duly transferred the sugar quota to Seven-Up and thereafter Seven-Up returned all of the assets to the vendor company, except the sugar on hand and the sugar quota. Seven-Up claimed the total expense under the arrangement to have been wholly, exclusively and necessarily laid out for the purpose of earning the income. The Income Tax Appeal Board found that the expenditure was for the purpose of placing Seven-Up in the position of being able to request the Sugar Administration for an increased quota and this was also held to be a permanent advantage.

**Damages, Cancellations, etc.**

(a) *Charter cancellation*

Halifax Overseas Freighters Limited, which was in the business of chartering ships for hire, found it expedient to pay out a sum of $120,750 to cancel certain agreements with Charter Parties, as a result of which it was possible to complete new charters at substantially higher rates. The deduction of the consideration for the cancellation of the charter agreements was disallowed, on the premise that the taxpayer was not in the

business of trading in charters and hence the payment made was not for the purpose of earning or producing income for its business, namely, that of chartering ships.

(b) *Surrender of lease*

A taxpayer who leased three properties and then paid $5,625 to the lessee to have the properties returned to him found his claim for deduction under Class 13 of the Income Tax Regulations (i.e. leasehold interest) denied, on the grounds that he had not acquired any leasehold interest but simply paid out a non-deductible capital outlay in consideration for the return to him of capital assets which would produce rental income.

(c) *Brokerage transactions*

In 1951, a security salesman, who had been a member of a partnership until 1947, made a settlement with the trustees of an incompetent person to rescind transactions which she had with the partnership during its existence. It was held that the expense was related to the former business of the taxpayer and not with his current position as salesman and, consequently, was not incurred in the taxation year for the purpose of gaining income from employment.

(d) *Compensation on leasehold*

A taxpayer agreed under its lease to pay $25,000 upon the expiration thereof to compensate the lessor for the cost of restoring the building to its original condition. A claim was made for one-eighth of the total in each of the years 1947 and 1948 and these were disallowed as being a contingent reserve under the terms of section 6(1)(d) of the Income War Tax Act. There is no indication that the taxpayer subsequently was able to obtain any tax deductions for the amount involved.

(e) *Cancellation of licence agreement*

Because of certain differences which arose, a company paid an amount of $5,800 for the release and cancellation of a licensing agreement which another firm had been given for the manufacture of a carbonated beverage. The expenditure was found not to have been made in the process of earning the company income but was held to cover an advantage of an enduring nature.

(f) *Deposit on block of timber*

A partnership undertook to purchase a block of timber at a total price of $105,000, and paid an initial deposit of $10,000. The project was abandoned and the $10,000 forfeited. The taxpayer deducted this amount as an operating expense but the Minister's view that it was a capital loss was maintained by the ITAB.

(g) *Non-competition agreement*

Mr. A., a director of a company owning and operating certain apartment buildings, became engaged in erecting some apartment buildings "uncomfortably" close to those operated by the private corporation. Mr. A. was dropped as a director of the corporation at the next annual meeting and, concerned with the threat of competition, the corporation agreed to make payments of $12,000 each for a three-year period if he would refrain from providing furnished apartments in his buildings, being the more profitable aspect of the business of the corporation. The expenditure of the corporation was found to be of a capital nature as it was not of a recurring nature, did not bring into existence a new capital asset, and was not an expenditure incurred in the usual manner for the earning of income.

BY PETER C. BRIANT, B.COM., C.A.

# *Current Reading*

## ACCOUNTING

"PROFIT PERFORMANCE MEASUREMENT OF DIVISION MANAGERS" by Joel Dean. *The Controller*, Sept. 1957, pp. 423 *et seq*.

Joel Dean, a noted authority on business and economic problems, poses and answers two questions in this article: (1) How may executive performance be measured? (2) What are the requirements for profit centre performance measurement?

The second question arises from the answer to the first, for Dean believes that executive performance (i.e. contribution to profits) may best be measured by dividing a corporation into semi-autonomous profit centres whose management is evaluated in terms of the contribution the centre makes to the corporation's overhead and profits. "A big, integrated multiple-product company functions best if made into a miniature of the competitive free-enterprise system," he writes, "you can do this by dividing firms into independent operating units which act like economic entities free to trade outside as well as inside the company . . . ."

In the balance of this article, Dean elaborates on the following five requirements for the satisfactory measurement of profit centre performance and to make the system achieve the desired results of stimulating and measuring executive performance:

1. Mark off profit centres correctly,
2. Establish economically sound intracompany transfer prices and business arrangements,
3. Measure the contribution profits of the profit centre correctly.
4. Detemine realistic standards of contribution profit performance.
5. Establish incentives in the form of executive compensation and non-monetary rewards that will induce profit centre managers to do what will be best for the corporation as a whole.

"ACCOUNTING PROBLEMS OF THE FOREST PRODUCTS INDUSTRY" by Robert M. Simpson. *The Journal of Accountancy*, Sept. 1957, pp. 38-45.

An informative discussion of special problems of depletion, amortization, depreciation, reforestation costs, cost allocation, and the valuation of product inventories in the forest-products industry.

"NOTES ON ACCOUNTING THEORY" by T. K. Cowan. *The Accountants' Journal*, June, 1957, pp. 411-414.

These notes, being part of the "Students' Section" of *The Accountants' Journal*, cover some general areas of knowledge fundamental to a thorough understanding of accounting today. Mr. Cowan reviews, for the benefit of student readers and to supplement their own reading on the subject, the nature and scope of accounting, accounting conventions and doctrines, and the limitations of financial statements. The material is not to be found in any one textbook

and, therefore, provides a useful digest of pertinent matter.

### EQUIPMENT

"NEVER OVERESTIMATE THE POWER OF A COMPUTER" by Ralph F. Lewis. *Harvard Business Review*, Sept.-Oct., 1957, pp. 77-84.

In this assessment of the present and foreseeable future of electronic computer applications, the author stresses that the major contribution of computer systems lies in the area of providing better or faster information to management, particularly in volume operations which have so far defied economic tabulation. Payroll is thus, in his view, not a profitable computer application. He sees interesting and profitable applications, however, in such fields as inventory control, production control, sales, revenue billing in large public utilities, and premium billing and actuarial studies in insurance companies.

The crucial question in deciding on a computer installation, Lewis advises, is simply: "Will this move add to the company's profits?" He sees no value in installing a computer merely because it is the fashionable thing to do; nor does he recommend switching established routines to the computer.

### STATISTICS

"STATISTICAL THEORY AS AN AID IN TESTING PERPETUAL INVENTORY RECORDS" by G. M. Boni. *The New York Certified Public Accountant*, Sept. 1957, pp. 613-630.

A factual case study of the application of statistical theory to testing the reliability of the physical quantities as shown on perpetual inventory records of raw materials and purchased parts in a company manufacturing under long-term government contracts. The author is chairman of the New York State Society's Committee on the Application of Statistical Methods to Accounting and Auditing.

"GRAPHIC PRESENTATION IN C.P.A. REPORTS" by Kermit O. Hanson. *The Journal of Accountancy*, Sept. 1957, pp. 58-63.

Eight illustrations of charts and graphs that may be easily incorporated in an audit report to make it more useful and more meaningful to the client. The use of standard grid forms and coloured and cross-hatched adhesive paper simplify the problem of chart preparation to the point where lack of time and draughting skill are no longer limiting factors, asserts the author.

## BOOK REVIEWS

**"Accounting — A Social Force in the Community" by Mary E. Murphy, Ph.D., C.P.A.; Melbourne University Press, 1956; pp. 208; 30/-**

Mary E. Murphy, Professor of Accounting in the Los Angeles State College of Applied Arts and Sciences, is the first Fulbright lecturer in accountancy to visit an Australian university. While engaged in this assignement some three years ago, Professor Murphy delivered a number of lectures in various states of the Commonwealth under the auspices of the Australian Society of Accountants. Seven of these lectures are published in this volume.

Professor Murphy deals with the enlargement of the accountants' viewpoint, dilemmas and challenges in modern accounting, a correlation of accounting and economics and the development of the function of the controller in business management.

The various lectures were given at

widely separated points throughout the Commonwealth, and understandably one notices some repetition throughout the book. The main theme, however, is unmistakable: namely that the profession of accountancy as such should give careful consideration to its objectives and the way in which it is meeting them but, in particular, cannot afford to neglect the possibilities of development in management accounting.

Professor Murphy's concept of management accounting is indicated in the following quotation:

> "From the managerial standpoint, accounting is concerned more with activities than it is with descriptive classification; it is more projective than it is historical; it tends to emphasize the problems and purposes more than procedures; it stresses relevant data instead of accepted methods; and it aims at rapidity even at the loss of some precision."

In the evolutionary advancement in accounting practice, four principal steps are prescribed as a minimum:

1. The establishment of an authoritative, comprehensive code of accounting principles to narrow the range of present practices.
2. The adoption of minimum standards of disclosure in financial statements.
3. The adoption of uniform practices within specific industries for inventory valuation, depreciation and other items.
4. The development of more nearly standardized statements that use the language of the reader instead of the technician.

The current concept of the duties and responsibilities of the auditing profession and the important rules of professional conduct are dealt with in detail. In discussing some of the challenges which have been encountered by the accounting profession in the United States, the influence of the Securities and Exchange Commission is referred to. "On balance," says Professor Murphy, "it is probable that accounting theory and practice has progressed further and faster under the stimulus of the S.E.C. than it would have in a *laissez-faire* financial climate."

A lecture delivered on September 15, 1953 refers to a familiar court action involving the use of the *Lifo* method of inventory valuation, but unfortunately, because of the date, the impression is left that *Lifo* was approved by the court. It was, of course, some two years later that the decision of the Supreme Court of Canada in this case was reversed by the Privy Council.

The lecture on the comparison of income taxation in Australia, Great Britain and the United States draws many interesting comparisons. Most readers for personal reasons will agree with the general theme that income taxes are too high; but one wonders if there is not an overemphasis in the suggestion that in the United States, because of high taxes, "there is a tendency for professional men and women to work only four days a week, married women are discouraged from entering the labour force and employees are reluctant to work overtime." This reviewer would also question the following statement: "Double taxation of corporate dividends in America is destroying the incentive to make speculative investments; as a consequence, the supply of venture capital is almost non-existent."

It is significant to a Canadian chartered accountant that in discussing accounting educational programs in various countries, the program conducted by the Society of Industrial and Cost Accountants is referred to, but there is no reference to the Canadian Institute of Chartered Accountants.

Professor Murphy states that "the day when the preparation and audit of historical accounts maintained the prestige of the profession in Britain and in other countries is over. Future developments in accountancy must keep pace with changes in industrial organization and management. This implies a great deal of research, teaching and writing on the part of both practising and non-practising accountants."

The book is recommended to all members of our profession who are interested in seeing accountancy realize its full potential and increase in its prestige in the community.

H. C. DIXON, F.C.A.
*Hamilton, Ontario*

## BOOKS RECEIVED

"Handbook of Partnership Taxation" by Arthur B. Willis; Prentice-Hall, Inc., New York; pp. 585; $15.00.

"Taxation of Life Insurance" by Bertram Harnett; Prentice-Hall, Inc., New York; pp. 296; $6.50.

"Tax Effects of Operating as a Corporation or Partnership" by Houstin Shockey and H. W. Sweeney; Prentice-Hall, Inc., New York; pp. 321; $8.50.

"Management Guide to Electronic Computers" by William O. Bell; McGraw-Hill Co. of Can. Ltd., Toronto, 1957; pp. 403; $7.80. [To be reviewed]

"Accounting for Non-Accountants" by John Myer; New York University Press, New York, 1957; pp. 235; $5.00. [To be reviewed]

"Montgomery's Auditing" by Norman J. Lenhart and Philip L. Defliese; The Ronald Press Co., New York, 1957; pp. 766; $10.00. [To be reviewed]

## SELECTED READING

***Accounting***

"Control, With Particular Reference to Accounting Control" by E. B. Smith. *The Chartered Accountant in Australia,* April 20, 1957, pp. 571-579.

"Accounting Terminology – Some Practical Problems in Communication" by K. S. Most. *The Accountant,* March 16, 23 and 30, 1957, pp. 289-291; 318-319; 352-353.

"The Inadequacy of Financial Accounts"
"A. From the Standpoints of Shareholders and the Public" by W. T. Baxter.
"B. For Fiscal Purposes and for Management and Control" by L. V. D. Tindale.

*The Accountants' Magazine,* February and March 1957, pp. 80-99 and pp. 169-182.

"The Accounting Panorama" by J. M. S. Risk. *The Accountant,* in two instalments commencing May 25, 1957, p. 619.

"Getting Behind the Figures: Points for Consideration in Accountancy Investigations (in two instalments) by A. G. B. Burney. *The Accountant,* June 22 and 29, 1957, p. 764 et seq.

"The Measurement of Profit" by R. H. Parker. *The Accountant,* July 20, 1957, pp. 64-65.

"The Control of Stocks" by J. H. Hepburn, *Accountancy,* March 1957, pp. 106-110.

"The Human Side of the Deflated Dollar Bias" by W. H. Whitney. *The Accounting Review,* July 1957, pp. 419-427.

"Accounting for Special Assessments in a Small City" by G. Simerville. *Municipal Finance,* May 1957, pp. 175-179.

***Cost Accounting***

"Cost Control is People" by Robert I. Dickey. *Cost and Management,* May 1957, pp. 197-204.

"An Approach to Profit Control through Analysis and Reporting for Top Manage-

ment" by Robert C. Harrington. *Cost and Management,* April 1957, pp. 155-164.

***Economics***

"Accounting Conventions, Pricing Problems and the Trade Cycle" by J. McB. Grant and R. L. Mathews. *Accounting Research,* April 1957, pp. 145-164.

***Education***

"Education and Training for the Accountancy Profession" by H. O. H. Coulson. *The Accountant,* July 20, 1957, pp. 61-63.

***Equipment***

"Business Applications of Computers" by B. C. Lemke. *The Accountant,* June 8, 1957, pp. 676-680.

"Automation: The Management Approach" by Malcolm P. Ferguson. *Michigan Business Review,* July 1957, pp. 1-10.

"Electronic Data Processing: A New Approach to a New Technique" by Kenneth S. Most. *The Accountant,* July 13, 1957, pp. 32-34.

***Law***

"Third Party Actions Against Accountants" by R. F. Salmonson. *The Accounting Review,* July 1957, pp. 389-394.

***Management***

"Industrial Diagnostics: A Systematic Approach to Management Problem-Solving" by J. M. Juran. *The Management Review,* June 1957, pp. 79-91.

***Management Accounting***

"A Director's View on Management Accounting" by L. W. Robson. *The Accountant,* May 18, 1957, pp. 591-596.

"Management Accounting and Agriculture" by R. W. Smith. *The Accountant,* July 6, 1957, pp. 8-11.

## Publishers' Addresses

*Accountancy* (Eng.), Incorporated Accountants' Hall, Temple Place, Victoria Embankment, London, E.C. 2, England.

[*The*] *Accountant* (England), 4 Drapers' Gardens, Throgmorton Avenue, London, E.C. 2, England.

[*The*] *Accountants' Magazine* (Scotland), 27 Queen Street, Edinburgh 2, Scotland.

*Accounting Research* (Eng.), Cambridge University Press, Bentley House, 200 Euston Road, London N.W. 1, England.

*Accounting Review,* College of Commerce and Administration, Ohio State University, Columbus 10, Ohio.

[*The*] *Chartered Accountant in Australia,* c/o The Institute of Chartered Accountants in Australia, Box 3921, Sydney, N.S.W., Australia.

*Cost and Management,* 66 King St. E., Hamilton, Ontario, Canada.

[*The*] *Federal Accountant,* 1523 L St., N.W., Washington, D.C.

*Internal Auditor,* 120 Wall St., New York 5, New York.

*Journal of Accountancy,* 270 Madison Ave., New York 16, New York.

*Michigan Business Review,* School of Business Administration, University of Michigan, Ann Arbor, Michigan.

*Municipal Finance,* 1313 East 60th St., Chicago 37, Ill.

*N.A.C.A. Bulletin,* 505 Park Ave., New York 22, N.Y.

# Students Department

BY J. E. SMYTH, F.C.A.
*Associate Professor, Queen's University*

## Correspondence

*Hamilton, Ontario.*

Sir: Throughout the latter years of the C.A. Course of Instruction a student receives several textbooks of United States origin and also the Accounting Research Bulletins of the American Institute of Certified Public Accountants. In addition, he is likely to read a number of articles on accounting and auditing subjects written from the American point of view in such authoritative magazines as *The Journal of Accountancy*.

In some instances principles stated therein are contrary to Canadian law or the standards laid down by our own Committee on Accounting and Auditing Research and must therefore be ignored. However, there are several topics covered by the U.S. books on which the Canadian literature available to us is silent. This presents a problem to students answering examination questions as to whether or not they might accept the American authority on the subject. To what extent do you think a student should rely upon U.S. views in answering examination questions and to what extent do practising members accept such United States authorities?

COLIN DALINGWATER
(*Student-in-Accounts*).

### Editor's Reply

We were pleased to receive Mr. Dalingwater's letter because we suspect it draws attention to a matter which many students do not emphasize sufficiently in their preparation for the C.A. examinations: a thorough knowledge of the research bulletins of the Canadian Institute and, in addition, an understanding of the reasoning underlying the recommendations of the American Institute bulletins.

In our opinion, the American Institute bulletins deserve a significant place in the studies of Canadian C.A. candidates. Most of the problems dealt with in those bulletins are common in some measure to Canadian practice, and the conclusions and recommendations offered are the result of a careful (and sometimes prolonged) consideration by a group of accountants who are not only prominent in practice, but who have given a good deal of thought to accounting theory. While we need not agree with the conclusions of any of the research bulletins, they serve the most useful purpose of acquainting us with the pros and cons of various alternative accounting treatments and they place the onus on us to show why some other method is preferable.

In general, this question is reminiscent of the problem arising in law about the extent to which decisions of the U.S. courts are binding in Canadian cases. It is our understanding that the answer here is that the U.S. decisions are not binding and would have no effect whatever if they deal with points of law already covered in Canadian statutes, but if the point has not been dealt with either in a Canadian statute or in the previous decision of an English or a Canadian court of law, and if the argument underlying the decision of the U.S. court appears cogent and entirely consistent with the facts of the Canadian case, that court decision may well influence the decision in the Canadian case.

Mere reliance upon authority is not, in itself, good logic and to say that a certain accounting treatment is the correct one because it has been recommended by a research committee of either the Canadian or American Institute is a weak argument. The important thing is to know what is the reasoning underlying the conclusions of these authorities and to have an opinion on the

validity of that reasoning. It is in this respect, we believe, that a thorough knowledge of the research bulletins is indispensable for the C.A. candidate.

(The editor then asked Mr. Dalingwater if he would elaborate his point that some of the principles stated by U.S. authorities are contrary to the standards laid down by our own Committee.)

**Mr. Dalingwater's Reply**

Sir: It would seem from your remarks concerning the research bulletins of the American Institute that you place great importance upon them as study material providing new avenues of authoritative opinion and reasonable alternatives in some cases to Canadian principles and procedures.

My problem is, however, as much concerned with textbooks and articles on accounting and auditing subjects in magazines which emanate from the United States as with the research bulletins. In particular, I think the student's problem arises when he meets with a statement of a reliable U.S. authority which is neither upheld nor objected to by any Canadian authority on the subject so far as the student is aware. Furthermore, the student is quite limited in his appreciation of the Canadian viewpoint since, apart from the lessons and Canadian bulletins, almost all the reference books available to him are of U.S. origin. As you say, mere reliance upon authority is not, in itself, good logic; but when the student is presented with only one set of principles, how can he reach an opinion on the extent of its validity?

There is also the difficulty that some of the C.A. course instructors apparently hold a different opinion from that stated in the lessons.

For example, the treatment of unamortized discount on bonds refunded is discussed in Chapter 15 of the American Institute Accounting Research Bulletin No. 43. Our course contained a practical question on this subject (Fifth Year Lesson No. 3) on which we were asked to advise the managing director on a suitable course of action giving our reasons for the recommended procedures. The method regarded as preferable in the American Institute bulletin was "distributing the charge over the remainder of the original life of the bonds refunded" although a direct write-off to income or earned surplus was also considered acceptable. However, the method of "amortization over the life of the new bonds" was said to be not acceptable. It was upon this bulletin that I based my answer to the lesson question, omitting the third alternative. However, the examiner commented that the third method was also permissible. Does the Canadian view on the matter therefore differ from the U.S. one, and if so, on what grounds? We have no way of determining the answer.

A second example is that of the statement presentation of unamortized bond discount or premium. Lesson No. 1 of the Third Year Course states that it is preferable to deduct such discount from the liability and extend the net amount. "Montgomery's Auditing", a U.S. book, states at page 319 that it is customarily shown as a deferred charge. In Question 1 of Third Year Lesson 23 we are required to show the balance sheet presentation of unamortized bond discount. My answer was in accordance with the earlier lesson, but the instructor stated that it was incorrect and presented Montgomery's view of the item as a deferred charge.

Concerning differences between the American Institute bulletins and those of our own Committee, I have noted the following:

1. *Material adjustments of prior year's profits.*

C.I.C.A. Bulletin No. 14 considers it "relatively unimportant" whether the adjustments be shown in the profit and loss statement after net profit for the year, or in the statement of earned surplus. Both the Canadian and the American Institute bulletins set out the alternatives with the proviso to the former method that the final balance should be described in such a way as to distinguish it from net profit or loss. Our American friends, however, come to the conclusion that charging significant adjustments to earned surplus is preferable to

showing such items (which might distort the current operating profit) after the figure of net profit *for the period.*

2. *Depreciation, Capital Cost Allowances and Income Tax*

The method of determining the amount to be charged to deferred credit in years when depreciation is in excess of capital cost allowance is somewhat different. The U.S. method results in stating net profit in those years as it would have been if income taxes had been computed as though capital cost allowance was equivalent to the depreciation charge for the year. (See Chapter 9 of Bulletin No. 43 of the American Institute.) The Canadian method, on the other hand, would draw on the deferred credit over the years in question by applying the effective average rate of taxation in the years of accumulation to the excess of current recorded depreciation over current allowance for tax purposes—regardless of the income tax rate in the year to which the credit is applied.

COLIN DALINGWATER

**Editor's Reply**

In the absence of any recommendation in a C.I.C.A. bulletin on a particular point of accounting treatment, it is our opinion that the onus is on any Canadian accountant to produce reasons why the practice recommended in leading U.S. accounting texts or in bulletins of the American Institute should not be followed. The C.A. Course of Instruction and the various Canadian universities supply a number of U.S. accounting texts and we think the student should be entitled to accept the reasoning of these authorities, unless, at any rate, the accompanying lesson material or course lectures provide convincing reasons why certain practices explained in the text are not suitable.

On the question of the treatment of unamortized bond discount when the bonds are refunded, the Committee on Accounting Procedure of the American Institute was not unanimous. Five of its 20 members dissented with the conclusions and stated a belief that there are circumstances in which the unamortized discount might be spread over the life of the new bonds. The existence of a sizable minority may be grounds for saying that the treatment is "permissible". Nevertheless, the question asked for the arguments for and against this treatment, and we do not think a student should be penalized for following the arguments of a majority of the American Institute Committee, provided he did not show in his answer a lack of understanding of the reasons underlying their recommendations.

In our experience teachers can learn from students, too. We suspect that C.A. students are sometimes too inclined to accept the verdict of the instructors who correct their exercises; or are perhaps too diffident or too busy to write to ask for a further explanation of comments which the instructor has made. Further, students sometimes assume a unanimity on points of accounting theory which does not exist. An occasional exchange with students keeps instructors on their mettle and may even sharpen their own thinking about the problems raised in the lesson material. It may also serve to disillusion those students (and instructors) who think that there must always be one solution to an accounting problem. (If there were one predetermined solution for every conceivable accounting problem, accountancy could be performed by the use of formulae and would not require the exercise of judgment. In the absence of the need for judgment, accountancy would lack one of the most important attributes of a profession.)

In our opinion we have not yet distinguished clearly enough in accounting theory between what is "customarily done in practice" and what is "logically correct". It is trite to say that a treatment is "acceptable" because it conforms with practice; the purpose of accounting instruction is to examine the reasoning underlying the treatment and, where necessary, to point to a preferable alternative ("preferable" in terms of logic). The balance sheet treatment of unamortized bond discount is surely a case in point. Here the student can be reasonably sure he will not be penal-

ized if he follows accepted practice! On the other hand, we think he is entitled to protest if a method which is recommended in the lesson material and in some of the texts provided with the course (e.g. pages 38-40 of "An Introduction to Corporate Accounting Standards" by Paton and Littleton) is marked incorrect, at least without reasons being offered. We may perhaps detect an increasing, though subtle, willingness to recognize alternatives in the balance sheet presentation of unamortized bond discount in the fact that the new C.I.C.A. Bulletin No. 14 (replacing Bulletin No. 1) no longer cites bond discount as an example of a deferred charge!

*(Readers are invited to submit their own comments on this problem and their criticisms of the views expressed above.)*

## CRITICISMS OF SOLUTION TO PROBLEMS ON MUNICIPAL ACCOUNTING IN THE AUGUST ISSUE

A reader who is actively engaged in the field of municipal accounting and auditing has been good enough to submit his criticisms of the solution to Problem 2 in the Students Department for August, last. In general, he points out that the solution has not followed the classifications and terminology recommended in the *Manual of Instructions*, published by the Dominion Bureau of Statistics. In particular, his criticisms are as follows:

1. Since Licences and Permits is a separate classification, it should not have been grouped with water rates in the question. (In any event, water rates should not appear here since they should be reflected in the financial statements of the water system, according to the first paragraph on page 133 of the manual.)
2. The description in the problem "Maintenance — buildings" is inadequate since it does not identify the buildings. The maintenance cost of buildings is classified according to service. Thus it might be charged to general government, fire protection, police protection, public works, health, recreation, etc., depending on which department the buildings serve.
3. Health and sanitation should not have been grouped in the question as each of these are classified as separate functions.
4. The problem requires a statement of revenue and expenditure, but does not specify whether it is to be the statement of revenue and expenditure of the current fund or of the sinking fund.
5. The statement of revenue and expenditure appearing in the solution fails to state the fund to which it applies. Certain expenditures have been deducted from taxation revenue in the revenue section, but no explanation is offered as to why these are deducted and other expenditure appropriations are not deducted. According to the *Manual of Instructions*, the expenditures on education and on debt charges should be shown in the expenditure section.
6. The solution should include the cost of maintenance of buildings with administration under the heading General Government or with public works, with a footnote to the effect that it is assumed to be one or the other due to lack of information in the question.

7. Relief costs should be shown at the gross amount. A Provincial Grant is an item of revenue just as much as taxation (see page 70 of the manual).
8. Grants to hospitals should be included in Health (page 84 of the manual).
9. The capital fund balance sheet fails to present as an asset the amount due from the sinking fund at the balance sheet date to meet the sinking fund debentures (page 15 of the manual).
10. The debenture discount should not be shown as an asset on the capital fund balance sheet since it was required for the purpose for which the debentures were issued. In such cases the discount, if the amount is not large, is charged as an expenditure of the year in which it arises. If the amount is large, it appears as a deferred charge on the revenue fund balance sheet and is levied for in the following year.
11. Debentures should be listed according to purpose — General, Schools, Utilities, etc. Listing each issue separately on the balance sheet is impractical in most cases and does not serve any useful purpose.
12. The amount shown as due to the revenue fund should be eliminated. A simple rule to follow is to show no payables here that will not be repaid by the capital fund.
13. The sinking fund balance sheet presented as a solution appears to be a combination of the balance sheet and the revenue and expenditure statement. The heading "Reserve Fund" in the liability section is incorrect as there is no legislative authority for a sinking fund to have a reserve fund; the balance must be interpreted to mean the actuarial requirements of the sinking fund at the balance sheet date. Due to lack of information in the question, a candidate would have to assume that the total assets of the fund equalled the actuarial requirements — an unlikely situation. In every case, unless investments have turned out badly, there would be a surplus which at the retirement of the debentures would be transferred to the revenue fund.
14. Debenture interest of $7,450 should not have been described as "payable" on the balance sheet as of June 30, 1956. The coupons were not payable until July 2, 1956. The item is apparently a prelevy which should be recorded as deferred revenue.

**Editor's Comments**

We have referred the above comments and criticisms to the Board of Examiners-in-Chief, and have been advised as follows:

1. A number of different forms of solutions, including ones which incorporated the points listed by our correspondent, were considered to be acceptable by the examiners. A note was given to the markers to the effect that an acceptable alternative in the statement of revenue and expenditures would be to show the "specific appropriations" as expenditures. Nor, for example, were candidates penalized for showing relief costs at their gross amount, or for including grants to hospitals under the heading "Health".

2. Primarily, the criticisms are concerned with details and with one prescribed form of presentation, rather than with the basic principles which the problem was designed to test.

3. Candidates were not penalized for following procedures described in the C.A. Course of Instruction. For example, the

fourth year course Lesson 21 states that a municipal corporation often charges bond discount to the capital asset account or to unamortized discount account in the capital fund ledger (page 21). Lesson No. 22 states that all unpaid advances from revenue fund to capital fund must be shown (page 3). Lesson No. 23 states that it is desirable to show the sinking fund surplus (that is, the excess of sinking fund assets over actuarial requirements of the fund) in a separate account but that sometimes the sinking fund surplus is included in the sinking fund reserve.

4. In preparing a problem for the examination, it is necessary to condense the data from that encountered in actual practice so that the problem can be worked in a reasonable length of time and so that problems on other topics may be included on the same paper. In municipal accounting problems such a condensation necessarily does some violence to the classifications required by the D.B.S. Manual of Instructions.

## PROBLEMS AND SOLUTIONS

Solutions presented in this section are prepared by qualified accountants, and reflect the personal views and opinions of the various contributors. They are designed not as models for submission to the examiner but rather as such discussion and explanation of the problems as will make their study of benefit to the student. Discussion of solutions presented is cordially invited.

### PROBLEM 1

*Intermediate Examination, October 1956*

**Accounting II, Question 8 (20 marks)**

CA is undertaking the audits of the accounts of the P Co. Ltd., incorporated under the Companies Act (Canada) and its subsidiary, the S Co. Ltd., for the fiscal year ended November 30, 1955.

The following post-closing lists of account balances, as at November 30, 1955, have been prepared by the accountant of the parent company:

| | *P Co. Ltd.* | *S Co. Ltd.* |
|---|---|---|
| DEBITS | | |
| Cash in bank | $ 9,200 | $ 20,700 |
| Due from P. Co. Ltd. | – | 22,400 |
| Accounts receivable | 25,200 | 30,300 |
| Raw material, at lower of cost or market | 25,200 | 16,700 |
| Work in process, at lower of cost or market | 7,300 | 5,300 |
| Finished goods, at lower of cost or market | 5,700 | 7,600 |
| Land, at cost | 8,500 | 5,200 |
| Buildings, at cost | 75,300 | 52,600 |
| Machinery and equipment, at cost | 87,300 | 72,500 |
| Discount on bonds | 2,600 | – |
| Investment in S Co. Ltd. (7,200 shares acquired December 1, 1954), at cost | 120,000 | – |
| | $366,300 | $233,300 |

## CREDITS

| | | |
|---|---|---|
| Accounts payable | $ 22,400 | $ 17,500 |
| Estimated taxes on income | — | 2,600 |
| Due to S Co. Ltd. | 20,200 | — |
| Allowance for doubtful accounts | 4,000 | 1,600 |
| 5% first mortgage bonds due November 30, 1960 | 70,000 | — |
| Accumulated depreciation — buildings | 39,300 | 30,600 |
| Accumulated depreciation — machinery and equipment | 57,200 | 44,500 |
| Capital stock — 6% preferred (Authorized: 10,000 shares of a par value of $20 each) | 40,000 | — |
| Capital stock — common (Authorized: 10,000 shares of a par value of $10 each) | 40,000 | — |
| Capital stock — common (Authorized: 10,000 shares of a par value of $10 each) | — | 90,000 |
| Earned surplus (per statement attached) | 73,200 | 46,500 |
| | $366,300 | $233,300 |

CA's examination of the accounts reveals the following information:

(i) The balances of cash in bank as of November 30, 1955 are reconciled as follows:

### P CO. LTD.

| | | |
|---|---|---|
| Balance per bank statement November 30, 1955 | | $12,200 |
| *Less* outstanding cheques | | |
| #524 J & Son | $ 500 | |
| #527 S Co. Ltd.* | 2,200 | |
| #528 R Bros. | 300 | 3,000 |
| Balance per general ledger November 30, 1955 | | $ 9,200 *Dr.* |

*Deposited by S Co. Ltd. December 7, 1955.

### S CO. LTD.

| | |
|---|---|
| Balance per bank statement November 30, 1955 | $23,200 |
| *Less* outstanding cheque | |
| #2527 T Lumber Co. | 2,500 |
| Balance per general ledger November 30, 1955 | $20,700 *Dr.* |

(ii) The current balances in earned surplus accounts of P Co. Ltd. and S Co. Ltd. are made up as follows:

### P CO. LTD.

| | | |
|---|---|---|
| Balance November 30, 1954 | | $69,000 |
| Net profit for the year (including dividend of $7,200 from S Co. Ltd.) | | 12,600 |
| | | $81,600 |
| Dividends paid: | | |
| preferred (for the year ended November 30, 1955) | $2,400 | |
| common | 6,000 | 8,400 |
| Balance November 30, 1955 | | $73,200 |

**S CO. LTD.**

| | |
|---|---|
| Balance November 30, 1954 | $48,300 |
| Net profit for the year | 7,200 |
| | $55,500 |
| Dividends paid | 9,000 |
| Balance November 30, 1955 | $46,500 |

**Required:**

The consolidated balance sheet of P Co. Ltd. as at November 30, 1955.

## A SOLUTION

### P CO. LTD AND SUBSIDIARY S CO. LTD.

### CONSOLIDATED BALANCE SHEET

**as at November 30, 1955**

ASSETS

| | | | |
|---|---|---|---|
| ***Current Assets*** | | | |
| Cash in bank | | $32,100 | |
| Accounts receivable | $ 55,500 | | |
| *Less* allowance for doubtful accounts | 5,600 | | |
| | | 49,900 | |
| Inventories, at lower of cost and market: | | | |
| Raw materials | 41,900 | | |
| Work in process | 12,600 | | |
| Finished goods | 13,300 | | |
| | | 67,800 | |
| Total current assets | | | $149,800 |
| ***Fixed Assets*** | | | |
| Land, at cost | | 13,700 | |
| Buildings, at cost | 127,900 | | |
| *Less* accumulated depreciation | 69,900 | | |
| | | 58,000 | |
| Machinery and equipment, at cost | 159,800 | | |
| *Less* accumulated depreciation | 101,700 | | |
| | | 58,100 | |
| Total fixed assets | | | 129,800 |
| ***Deferred charge*** | | | |
| Unamortized bond discount | | | 2,600 |
| ***Intangible asset*** | | | |
| Goodwill | | | 9,360 |
| | | | $291,560 |

### LIABILITIES AND SHAREHOLDERS INTEREST

| | | |
|---|---|---|
| ***Current liabilities*** | | |
| Accounts payable | $39,900 | |
| Estimated income tax payable | 2,600 | |
| Total current liabilities | | $ 42,500 |
| ***Long term liability*** | | |
| 5% first mortgage bonds, due November 30, 1960 | | 70,000 |
| ***Minority interest in S Co. Ltd.*** | | |
| Share capital, S Co. Ltd. | 18,000 | |
| Earned surplus, S Co. Ltd. | 9,300 | |
| | | 27,300 |
| Total liabilities | | 139,800 |
| ***Shareholders interest*** | | |
| Share Capital | | |
| Authorized — 10,000 shares of 6% preferred stock of a par value of $20 each, and 10,000 common shares of a par value of $10 each. | | |
| Issued and fully paid — | | |
| 6% Preferred — 2,000 shares | 40,000 | |
| Common — 4,000 shares | 40,000 | |
| Total paid-in capital | 80,000 | |
| Retained earnings | 71,760 | |
| Total shareholders interest | | 151,760 |
| | | $291,560 |

## *Examiner's Comments*

1. A few candidates calculated the controlling interest as 72%, having related the 7,200 shares acquired by P Co. Ltd. to the authorized rather than the issued shares of S Co. Ltd.
2. The form of a number of the consolidated balance sheets presented was poor.

***Editor's comments***

(1) In the editor's opinion, unamortized bond discount might have been presented alternatively on the balance sheet as a deduction from the par value of the first mortgage bonds.

(2) In the above balance sheet the minority interest in the subsidiary has been presented as a liability. The underlying assumption here is that the consolidated balance sheet is prepared from the point of view of the shareholders of the parent company.

An alternative view is that "minority interests" are a part of the total shareholders equity. Thus W. H. Childs states, "The difference between the consolidated assets and the consolidated liabilities is the proprietorship of the enterprise . . . . The consolidated proprietorship may have majority and minority elements, and the consolidated profit or loss may be distributable to majority and minority interests.

These interests are seen to be co-ordinate elements in the proprietorship . . . . It would seem that a minority should not be looked upon as a liability unless it represents recalcitrant stockholders whom the majority is trying to buy out . . . . It does not have a lien on any asset; it does have a proprietary equity in certain assets and is a part of the total capital of the enterprise. ("Consolidated Financial Statements", pages 284-5).

In the same tenor, W. J. Vatter has written, "Some of the minority equity is also profit reinvested in at least a part of the business. The categorical lumping of minority equities into a quasi-liability is, to say the least, a patronizing view; it can be justified only on practical grounds of expediency. Theoretically, every minority interest is, from the viewpoint of the consolidated enterprise (the fund), a "capital stock" as well as a "surplus" item. ("Handbook of Modern Accounting Theory", page 411).

Somewhat out of character we think, W. A. Paton advocates showing the minority interest on the balance sheet in that nebulous cloudland which exists between the liabilities and the shareholders interest — in the so-called grey area of the balance sheet. He writes, "The minority interest should be presented as a distinct element between the liabilities proper and the capital and surplus attaching to the dominant interest." ("Advanced Accounting", page 803). This presentation is frequently adopted in practice, and should also be regarded as an alternative.

## PROBLEM 2

*Final Examination, October 1956*

**Accounting III, Question 6 (22 marks)**

On January 1, 1955, X Co. Ltd. purchased 90% of the capital stock of a United Kingdom company, R Co. Ltd.

The trial balances of the two companies as at December 31, 1955 are set out on the attached columnar sheet.

The following additional information is available:

(i) R Co. Ltd. purchased all its merchandise from X Co. Ltd. which bills the subsidiary at cost plus 25% payable in dollars. The sales of X Co. Ltd. for the year ended December 31, 1955 included billings to the subsidiary in the amount of $547,500.

(ii) The accounts receivable of X Co. Ltd. includes $15,450 receivable from R Co. Ltd., which is included in the accounts payable of R Co. Ltd. at £5,400.

(iii) Inventories on hand at December 31, 1955 were as follows:
X Co. Ltd. — $228,480
R Co. Ltd. — £39,300

(iv) The following rates of exchange are applicable:

| | |
|---|---|
| December 31, 1954 | 1£ = $2.50 |
| December 31, 1955 | 1£ = $3.00 |
| Average, 1955 | 1£ = $2.75 |

(v) X Co. Ltd. wishes to take the exchange profits or losses on conversion of R Co. Ltd's trial balance into current operations.

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## A SOLUTION FOR FINAL ACCOUNTING III, QUESTION 6

### X CO. LTD., AND ITS SUBSIDIARY, R CO. LTD.

### WORK SHEET FOR THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

### For the Year Ended December 31, 1955.

| | *as at Dec. 31, 1955* | | | | | *Adj* |
|---|---|---|---|---|---|---|
| | *X Co. Ltd. (Dollars)* | *R. Co. Ltd. (Pounds)* | *Rate of conversion* | *R Co. Ltd. (Dollars)* | *Total* | |
| DEBITS | | | | | | |
| Cash | $ 184,650 | £ 4,160 | $3.00 | $ 12,480 | $ 197,130 | |
| Accounts receivable | 124,650 | 20,700 | 3.00 | 62,100 | 186,750 | (1) |
| Inventories (Dec. 31/54) | 223,920 | 28,080 | 2.50 | 70,200 | 294,120 | |
| Investment in R Co. Ltd. | 198,000 | — | — | — | 198,000 | (2) ( |
| Fixed assets – net | 338,208 | 38,640 | 2.50 | 96,600 | 434,808 | |
| Purchases | 967,680 | 205,900 | actual | 547,500 | 1,515,180 | (3) ( |
| Expenses | 237,825 | 17,640 | 2.75 | 48,510 | 286,335 | |
| Depreciation | 33,975 | 2,520 | 2.50 | 6,300 | 40,275 | |
| Dividends paid | 24,000 | 12,000 | actual (2.76) | 29,808 | | |
| | | | bal. (2.76) | 3,312 | 57,120 | (4) |
| | $2,332,908 | £329,640 | | 876,810 | 3,209,718 | |
| | | | Loss on exchange | 11,700 | 11,700 | |
| | | | | 888,510 | $3,221,418 | |
| CREDITS | | | | | | |
| | | | actual | 15,450 | | |
| Accounts payable | 47,520 | 8,520 | bal. (3.00) | 9,360 | 72,330 | (1) |
| Capital stock | 600,000 | 60,000 | 2.50 | 150,000 | 750,000 | (2) |
| Earned surplus (Dec. 31/54) | 202,080 | 17,520 | 2.50 | 43,800 | 245,880 | (2) |
| Sales | 1,453,500 | 243,600 | 2.75 | 669,900 | 2,123,400 | (3) |
| Dividends received | 29,808 | — | — | — | 29,808 | (4) |
| | $2,332,908 | £329,640 | | $888,510 | $3,221,418 | |

Inventories, Dec. 31, 1955:

X Co. Ltd.

R Co. Ltd. – £39,300 @ $3.00 = $117,900

*Less* intercompany profit ..... 23,580

Minority intere
profit of R C
10% of $115
Consolidated p

Minority interest in
Consolidated earned

| | Adjustments Dr. (Cr.) | Profit and loss — Expenses | Profit and loss — Revenue | Earned surplus — Debit | Earned surplus — Credit | Balance Sheet — Assets | Balance Sheet — Liabilities |
|---|---|---|---|---|---|---|---|
| | | | | | | $197,130 | |
| ) | (15,450) | | | | | 171,300 | |
| | | 294,120 | | | | | |
| ) | (174,420) | | | | | 23,580 (G.W.) | |
| | | | | | | 434,808 | |
| ) | (547,500) | 967,680 | | | | | |
| | | 286,335 | | | | | |
| | | 40,275 | | | | | |
| | | | | 3,312 - M | | | |
| ) | (29,808) | | | 24,000 | | | |
| | | 11,700 | | | | | |
| ) | 15,450 | | | | | | 56,880 |
| ) | 135,000 | | | | 4,380 - M | | 15,000 - M |
| ) | 39,420 | | | | 202,080 | | 600,000 |
| ) | 547,500 | | 1,575,900 | | | | |
| ) | 29,808 | | | | | | |
| | | | 228,480 | | | | |
| | | | 94,320 | | | 322,800 | |
| | | 1,600,110 | 1,898,700 | | | | |
| terest in R Co. Ltd. $115,290 | | 11,529 | | | 11,529 - M | | |
| d profit | | 287,061 | | | 287,061 | | |
| | | 1,898,700 | 1,898,700 | | | | |
| in surplus R Co. Ltd. Dec. 31/55 | | | | 12,597 | | | 12,597 - M |
| ıed surplus, Dec. 31/55 ......... | | | | 465,141 | | | 465,141 |
| | | | | 505,050 | 505,050 | 1,149,618 | 1,149,618 |

**Required:**

Complete the work sheet for the consolidated financial statements as at December 31, 1955. (Ignore United Kingdom and Canadian taxes on income).

NOTE: ***Sudent's work sheet may be submitted on the attached columnar sheet.***

Editor's note: The "attached columnar sheet" to which the problem refers was a sheet of fourteen column accounting paper on which candidates were to submit the work sheet required by the problem and which contained the following trial balances as of December 31, 1955, printed on its left hand columns:

| | *X Co. Ltd.* (*Dollars*) | *R Co. Ltd.* (*Pounds*) |
|---|---|---|
| DEBITS | | |
| Cash | $ 184,650 | £ 4,160 |
| Accounts receivable | 124,650 | 20,700 |
| Inventories – December 31, 1954 | 223,920 | 28,080 |
| Investment in R Co. Ltd. at cost (£79,200) | 198,000 | – |
| Fixed assets – net | 338,208 | 38,640 |
| Purchases | 967,680 | 205,900 |
| Expenses | 237,825 | 17,640 |
| Depreciation | 33,975 | 2,520 |
| Dividends paid | 24,000 | 12,000 |
| | $2,332,908 | £329,640 |
| CREDITS | | |
| Accounts payable | $ 47,520 | £ 8,520 |
| Capital stock | 600,000 | 60,000 |
| Earned surplus – December 3, 1954 | 202,080 | 17,520 |
| Sales | 1,453,500 | 243,600 |
| Dividends received – R Co. Ltd. | 29,808 | – |
| | $2,332,908 | £329,640 |

(*For solution to Final Accounting III, Question 6, see page 481*)

**Editor's discussion of solution**

The conversion of the dividends paid by the subsidiary company might, alternatively, have been calculated as follows:

| | |
|---|---|
| Reciprocal value shown by books of X Co. Ltd. for dividends received | $29,808 |
| Minority interest share of dividends paid: 10% of £12,000 = $1,200 converted at $2.75 | 3,300 |
| | $33,108 |

# NEWS OF OUR MEMBERS

***Alberta***

Harvey W. Bliss, C.A. has been appointed a director of Kroy Oils Ltd., Calgary.

***British Columbia***

Rickard, Crawford & Co., Chartered Accountants, Vancouver, announce the admission to partnership of W. Kenneth Waldron, C.A.

David E. Fenton, C.A. has been appointed vice-president and comptroller of Imperial Investment Corporation Ltd., Vancouver.

G. B. Phillips, C.A. announces the opening of an office for the practice of his profession at 142 Second Ave. W., Prince Rupert.

Carter, Reid, Walden & Rae, Chartered Accountants, announce the acquisition of the accounting practice of the late C. R. Eyre and the opening of their office at 477 Cumberland Rd., Courtenay.

Frederick Graham & Co., Chartered Accountants, announce the removal of their office to 1815 West 7th Ave., Vancouver.

Rudd & Goold, Chartered Accountants, Vancouver, announce the admission to partnership of Gordon D. Elliott, C.A.

***Manitoba***

A. Havelock, C.A. has been appointed vice-president and general manager of North Star Oil Ltd., Winnipeg.

***New Brunswick***

R. V. Ouellette, C.A. announces the opening of an office for the practice of his profession in Edmundston.

***Ontario***

England, Leonard, Macpherson & Co., Chartered Accountants, Kingston, and Millman & Buckingham, Chartered Accountants, Kingston, have amalgamated their practices. Both firm names will continue to be used in the combined practice.

Albert Soren, C.A. announces the opening of an office for the practice of his profession at 153 St. Clair Ave. W., Toronto.

Millard, Rouse and Rosebrugh, Chartered Accountants, announce the removal of their Simcoe office to 65 Kent St. S., Simcoe.

H. G. Tait, C.A. has been appointed comptroller of Molson's Brewery (Ontario) Ltd., Toronto.

Harry S. Wilson, C.A. has been appointed assistant controller, finance staff, central office for Ford of Canada.

***Quebec***

J. Harvey Sullivan, C.A. has been appointed assistant treasurer of Cafo Ltd., and Cafo Acceptance Ltd., Dominion-wide Fire and Casualty Insurance Premium Budget Organizations.

Dainow, Alper & Co., Chartered Accountants, announce the removal of their offices to 3448 Peel St., Montreal.

Gilbert Mogil, C.A. announces the opening of an office for the practice of his profession at Ste. 324, Professional Centre Bldg., 5757 Decelles Ave., Montreal.

Charles McLaughlin, C.A. has been appointed lecturer in taxation at McGill University for the 1957-58 academic year. He is also lecturer in taxation at Sir George Williams College and the University of Montreal. Mr. McLaughlin is taxation supervisor at Canadian Industries Limited, Montreal.

***Saskatchewan***

J. Robert Neal, C.A. has been appointed assistant divisional controller of the parts and accessories division of Ford of Canada.

# INSTITUTE NOTES

## B.C. INSTITUTE

*Law Examinations*: Miss Ada Marjory Burnstill, of Kelowna, and Bock W. Yip, of Vancouver, took respectively top honours in the B.C. Institute's 1957 final and intermediate law examinations. Mr. Yip, a former scholarship winner in the Department of Education examinations was awarded last year the B.C. Electric prize for highest marks in the Institute's primary English examination.

Of 81 candidates writing the final law examinations, 67 passed and 14 failed. The same pass rate obtained in the intermediate law examinations, with 83 passes and 17 failures.

*B.Com. Plan*: In 1954, the University of British Columbia and the Institute of Chartered Accountants of British Columbia established a combined B.Com.-C.A. course which enabled students to pursue simultaneously the U.B.C. course and the Institute course in articles. This fall a further step was taken in the liaison between the two bodies when the U.B.C. Senate approved a plan to grant any Institute member with requisite entrance standing up to one year's credit in the course work leading to the degree of B.Com., in recognition of the training already received in the B.C. Institute courses. Enquiries about this plan should be made to the U.B.C. Faculty of Commerce and Business Administration.

*Fall Dance and Technical Sessions*: The B.C. Institute fall dance and technical sessions will be held this year at the Hotel Vancouver on Friday, November 29, 1957.

*1958 Annual General Meeting*: Fifty-two annual general meetings of the Institute have been held in Vancouver. In 1958 the Institute will hold its 53rd annual general meeting at the Hotel Empress, Victoria, B.C. on June 12 and 13.

## ONTARIO INSTITUTE

Two scholarships, valued at $1,000 each, have been awarded by the Ontario Institute to Toronto students Barry S. Sutton and Lili N. Chernick. Begun this year, the matriculation scholarships are intended to help students enter Commerce and Business Administration courses at Ontario universities. Barry Sutton led Grade XIII students at Bathurst Heights Collegiate, Toronto, with 11 firsts and 2 seconds. Miss Chernick graduated from Oakwood Collegiate, Toronto, with 9 firsts.

## MARITIME MEETING

A regional meeting of chartered accountants in the Atlantic Provinces will be held on November 28 and 29 in Halifax. It will be attended by Mr. J. A. de Lalanne, C.I.C.A. president.

## NEW C.A. ASSOCIATION

Forty-three chartered accountants from Kitchener, Waterloo, Galt, Preston and Guelph attended a golf tournament and dinner at the Doon Valley Golf and Country Club on Wednesday, September 25. Prizes were won by R. H. Fickes, R. Dahmer, P. H. Uffelmann and A. B. Shepard.

After dinner, plans were laid for the formation of an association of members in the district. Appointed to the original executive were D. Bruce Davis, Kitchener, president; C. H. Spry, Kitchener, vice-president; J. I. Battler, Preston, J. Flavelle, Galt and D. J. Matthews, Guelph, local representatives.

## EDMONTON C.A. CLUB

The annual golf tournament of the Edmonton C.A. Club was held at the Edmonton Country Club on September 26. Prizewinners were Herb Hartley (low gross), Roy Leard, (low net), and Glenn Treacy,

Bruce Collins, Jerry Bright and Dave McElroy. Renny Englebert, editor of *The Canadian Chartered Accountant,* was a guest at the dinner following the tournament.

### HAMILTON STUDENTS ASSOCIATION

Remember that the annual fall dance of the Hamilton and District C.A. Students Association is set for Friday, November 8 in the Ebony Room of Roberts Restaurant, King St. E., Hamilton. Dancing from 8.30 p.m. to 1 a.m.

### OTTAWA C.A. STUDENTS

Brian Mulvihill was elected president of the student branch of the Ottawa C.A. Club at the recent annual meeting. Other officers elected were: vice-president, Douglas Ardley; secretary, Jack Raymond; treasurer, Robert Heasman; executive, Leo Fox, Ron Raganold and Joseph Bones; sports convenor, Garry Armstrong.

### QUEBEC INSTITUTE

***Student Recruitment Program***: The Quebec Institute Recruitment Program moved into high gear on Thursday, September 26 with a reception for Montreal district high school principals. During a strictly informal function the president, G. P. Keeping, briefly outlined the attractions of the profession and details of the season's program. There followed a brisk question period.

On October 17 a reception was held for the student counsellors in the various high schools. Details of the program were dealt with more fully, and each counsellor was given a kit containing samples of printed matter. A panel of speakers who will address final year classes during the year attended this reception, made the acquaintance of the counsellors and heard their questions and suggestions.

Student counsellors were informed of an open house for final year students, scheduled for November 6. They were given tickets for distribution to students and posters advertising the function for their school bulletin boards. The open house will include showing of the film "Accountancy – The Language Of Business" as well as 10-minute talks on the fundamentals of career selection by three guest speakers.

Printed material in the program includes a new leaflet for mass distribution entitled "12 Reasons Why Every Young Man Who Cares About a Career Should Examine the Advantages of Becoming a Chartered Accountant", and two illustrated 9" x 12" posters for school bulletin boards.

***Golf Tournament***: The annual golf tournament of the Institute was held on September 25 at Islesmere Golf and Country Club. Teams and individuals competed for many trophies and prizes under ideal playing conditions. The McDonald Cup was won by the team representing McDonald, Currie & Company, made up of B. M. Adair, H. A. Jones, A. D. Lloyd, and D. W. Butcher. Ian Ballantyne won the Hutchison Cup for low gross and M. L. Bertrand was awarded the Valiquette Cup for low net.

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The Institute of Chartered Accountants of Quebec announces that, at a recent meeting of the Institute's Council attended by more than 75% of its members, Claude B. Chaussé was by a unanimous vote of those present expelled from membership in the Institute for conduct derogatory to the honour of the Institute.

***The editor welcomes information for this column. News of members and provincial Institutes' activities received up to and including the 13th of the month will appear in the following issue of the journal.***

# CLASSIFIED ADVERTISEMENTS

Rates: *Positions wanted, \$7.00 per column inch; Positions offered, \$10.00 per column inch; Open rate, \$17.00 per column inch.*

*All replies to box numbers should be sent to The Canadian Chartered Accountant, 69 Bloor Street East, Toronto 5, Ontario.*

**Closing date is 14th of preceding month**

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**WANTED: Young French chartered accountant with small practice as associate and eventual partnership with medium-size Montreal English C.A. firm. Box 707.**

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**WANTED: The Corporation of the City of Hamilton requires a young Chartered Accountant to act as Assistant to the Treasurer and Commissioner of Finance. This position offers an exceptional opportunity for experience and the use of initiative in the municipal field of accounting, procedures, modern mechanical and tabulating equipment and other related areas. Pension, vacation, sick leave allowance, hospital and medical insurance available. Salary range up to \$7550 depending upon experience. Reply in confidence stating age, education and experience to**

**Director of Personnel**
**City Hall**
**Hamilton**

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**WANTED: Junior and intermediate students. Write giving previous experience, training, etc., stating salary required. Samuel S. Speigel and Company, 289 Cedar Street, Sudbury, Ont.**

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**PRACTICE WANTED: Toronto firm of chartered accountants with connections in Western Ontario wishes to acquire practice in the London-Windsor area. Box 705.**

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**CANADIAN CHARTERED ACCOUNTANTS practising in Bermuda require experienced chartered accountant to manage new branch office in West Indies. Age 30-40 years, preferably single. Salary and incentive annual percentage. Initial housing provided. Possibility for partnership. All replies will be treated confidentially. Apply to Box 708.**

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**ACCOUNTING PRACTICE WANTED in Montreal by purchase or succession agreement. Box 706.**

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**WANTED: by C.A. equivalent (wrote finals October 1957) Toronto area, position with small practising firm re future partnership, purchase, or succession. Or per diem work (\$21 per day). Box 709.**

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**PRACTICE WANTED: French speaking C.A. seeks opportunity to purchase partnership interest with a view to succession and assume responsibility for part of practice in Montreal. Box 710.**

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**ASSISTANT BUSINESS ADMINISTRATOR for rapidly growing college in well-established Ontario university; leading to future promotion; knowledge of accounting and general office procedures required; salary according to experience. Apply to Box 711.**

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**WANTED: Toronto to Niagara to purchase small accounting practices, group of accounts and/or individual accounts of any type. Box 715.**

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**ACCOUNTING PRACTICE WANTED: A small or medium sized practice desired in Ontario through direct purchase or association with practitioner contemplating retirement. All replies considered. Box 712.**

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**POSITION WANTED: Young accountant, articles completed, desires work with a C.A. firm in the Toronto area. Box 713.**

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**PRACTICE WANTED: Established Vancouver firm of chartered accountants desires to expand. Will purchase active practice, individual accounts, or merge with principals who will retain a supervisory interest. Replies strictly confidential. Box 714.**

# BARRISTERS AND SOLICITORS

**MACLEOD, McDERMID, DIXON, BURNS, McCOLOUGH, LOVE & LEITCH**

**Barristers and Solicitors**

*6th Floor, Hollinsworth Building - - - Calgary, Alta.*

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**PITBLADO, HOSKIN, BENNEST, DRUMMOND-HAY, PITBLADO, McEWEN, ALSAKER, HUNTER & SWEATMAN**

**Barristers and Solicitors**

*Hamilton Building, 395 Main Street - Winnipeg 2, Man.*

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**STEWART, SMITH, MACKEEN, COVERT, ROGERS, SPERRY & COWAN**

**Barristers and Solicitors**

*Roy Building - - - - - - Halifax, N.S.*

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**ROSS & ROBINSON**

**Barristers and Solicitors**

*Canadian Bank of Commerce Chambers - - Hamilton, Ont.*

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**BORDEN, ELLIOT, KELLEY, PALMER & SANKEY**

**Barristers and Solicitors**

*25 King Street West - - - - - Toronto 1, Ont.*

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**ALAN DIGNAN, Q.C.**

**Barrister and Solicitor**

*1245 Bloor Street West - - - - Toronto 4, Ont.*

**McCARTHY & McCARTHY**

**Barristers and Solicitors**

*Canada Life Building, 330 University Avenue - Toronto 1, Ont.*

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**McLAUGHLIN, MACAULAY, MAY & SOWARD**

**Barristers and Solicitors**

*302 Bay Street - - - - - - Toronto 1, Ont.*

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**WRIGHT & McTAGGART**

**Barristers and Solicitors**

*67 Yonge Street - - - - - - Toronto 1, Ont.*

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**BEAULIEU, BEAULIEU & CASGRAIN**

**Barristers and Solicitors**

*Kent Building, 10 St. James Street West - Montreal 1, Que.*

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**COMMON, HOWARD, CATE, OGILVY, BISHOP & COPE**

**Barristers and Solicitors**

*Royal Bank Building - - - - Montreal 1, Que.*

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**DIXON, SENECAL, TURNBULL, MITCHELL, STAIRS, CULVER & KIERANS**

**Barristers and Solicitors**

*Bank of Canada Building - - - Montreal 1, Que.*

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**PHILLIPS, BLOOMFIELD, VINEBERG & GOODMAN**

**Barristers and Solicitors**

*464 St. John Street - - - - - Montreal 1, Que.*

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## LIFE INSURANCE



**CHANGE OF ADDRESS**

If you move you should advise your provincial Institute. If you want to receive prompt, uninterrupted service in the delivery of *The Canadian Chartered Accountant*, you can help by advising us also of your change of address. Your cooperation will be most helpful and greatly appreciated.

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